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NOVEMBER, 1953

# ECONOMIC DIGEST

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# ECONOMIC DIGEST

NOVEMBER, 1953    VOLUME VI    NUMBER ELEVEN

## Capitalism Must Defend Itself

*Ignorance of the facts is the enemy: Education  
is the proper weapon to defeat that enemy*

BY HAROLD WINCOTT

THERE is, I think, only one way of stopping the gradual destruction of capitalism, virtually regardless of which party is in power, and that is to convince the British public that in the long run, if the process is pushed too far, we shall no longer be able to sustain our present population on these islands on anything approaching a reasonable standard of living.

Modern British capitalism is extraordinarily bad at presenting itself, at explaining itself, at introducing itself to the ordinary men and women of this country.

It is, of course, easy enough to find reason for this. British capitalism, as we all know, got away to a flying start in the nineteenth century.

Then came the tragedy of the inter-war years: the tragedy of British industry trying to compete with the newer foreign industries in a world of rising nationalism, handicapped over six critical years by an overvalued currency.

We are still paying for those years—for the strikes and the hunger-marches, the Invergordon mutiny and the men in the mining villages who passed their day seeing who could spit the farthest.

Those years to many people still represent British capitalism.

In those years, too, despite all the natural difficulties and discourage-

ments which British industry faced, despite all the restrictionism on labour's part, there was a good deal that had to be deplored in the attitude of British industry towards new processes and plant. A generally restrictionist attitude prevailed, in an understandable but regrettable attempt to hold what we had by negative methods.

Side by side with the factors I mentioned, other considerations arose. The rise of personal taxation, both on incomes and estates, revolutionised the ownership of industry. Where, in the last century, ownership of industry had been a very personal, family responsibility, with direction going alongside it, ownership has now become remote, divorced from direction, and divided between a vanishing race of private individual shareholders and large impersonal financial institutions, such as insurance companies and pension funds.

These financial institutions, we have to remember, are themselves sometimes corporate bodies, with directors and shareholders. Pension funds are generally offshoots of large industrial concerns. Neither type of institution is very keen to make its voice heard in the overall direction of the companies in which such institutions invest their funds—although it would be wrong to suggest they are

*From Lecture on 'Some Reflections on Modern Capitalism', Institute of Cost and Works Accountants, September 25, 1953*

altogether passive investors—if only because they may feel that would be laying their own institutions open to 'interference'. Thus, although many small capitalists do in fact invest their savings in industry, they do so indirectly, they are disfranchised, they do not 'feel' themselves to be capitalists, with any responsibility to see that the system works.

### Conservative Thinking

I cannot help feeling that the management element in the British economy has been altogether too conservative, in the whole field of capitalism's public relations. Let me give you some examples.

In a country in which profits and dividends are regarded by many people with suspicion, we persist in accounting practices which in a time of rising commodity prices produce inflated profits, profits which in fact contain a substantial element of capital. We make matters worse by allowing these profits to be related to nominal capitals which often have no relevance to the true capital employed in the business; we continue stating industry's fixed assets, broadly speaking, in the pounds of another age.

To inflate your profits, to understate the value of the assets through the use of which these profits are earned is simply to ask for trouble. And British industry has had it since those halcyon days of 1938 when company taxation took only around 25 per cent of earnings.

Let us consider for a moment two aspects of this modern problem of the ownership of industry.

We have to face the fact that what has been called the atomisation of ownership, either through small individual shareholdings, or through countless small rivulets of savings

channelled through the insurance companies and pension funds, is here to stay.

Accepting that fact, what steps do we take to encourage the small saver to place his savings in industry? What do we do to encourage the investment trust and unit trust movements which can spread their resources and so minimise the risk of the small saver?

In the last few weeks, the Chancellor of the Exchequer has announced that the flat prohibition on the raising of new capital by such trusts has been removed. Now they have official permission to take their place in the queue before the Capital Issues Committee, and 'in appropriate cases' the Committee is asked to give its sanction to their issues.

In what way does the investment trust or unit trust differ from the life insurance company, the pension fund, or the building society? All are institutions devoted to the garnering of individual savings and the investment of such savings under expert management. But whereas the insurance company, the pension fund and the building society are free to raise as much capital through premiums, contributions or deposits, as they can, without any need to ask anyone's permission, and indeed are constantly being urged to do so, the government still persists in subjecting the investment and unit trusts to C.I.C. control.

I could wish the government was aware of the enormous progress made by the 'open-end' trust movement—the equivalent of our unit trusts—in the United States in encouraging the small capitalists there since the end of the war.

The Stock Exchange adds its quota of encouragement by penalising an investment trust that splits its stock

into shares of small nominal value, when such shares are sold.

From spirited criticism across the country, the Industrial Corporation by small investors invests in concerns which this country is sure to be proud to have there is a discussion, and appropriate dismisses.

### Proclaim

Against insurance funds aggregated by holders of butors the contribution to the industry against the waged for possible in this extent to him, it is no idea 'they's'.

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into shares and its £1 shares into shares of the more popular 5s. denomination, by increasing the commission its members must charge when such shares are bought and sold.

From time to time, some public-spirited person, such as Mr J. B. Kinross, the managing director of the Industrial and Commercial Finance Corporation, produces a plan whereby small savers can be helped to invest their savings direct in the concerns which are household names in this country, concerns in which I am sure many small savers would be proud to have a stake. Momentarily there is a spurt of interest in such discussions, but then that interest flags and apparently the whole thing is dismissed as a passing fancy.

### Proclaiming the Facts

Again, I would like to see the insurance companies and pension funds aggressively reminding policyholders and pensioners and contributors that *their* premiums and contributions are invested to a substantial extent in the equity of British industry. The continuing vendetta against that equity that has been waged for many years has only been possible because the man in the street in this country has no idea of the extent to which he is a capitalist. To him, it is 'we' against 'they'; he has no idea that he may be among the 'they's'.

*The coal miners of this country have the reputation of being bitterly opposed to capitalism. Do they realise that up to 20 per cent of their pension funds can be and will be invested in the Ordinary and Preference shares of British industry; that eventually these funds will grow to £200 millions and that they may then have £40 millions of their money in such shares? Can they not be made to realise that*

the more prosperous British industry is, the better dividends it pays—consistent with the maintenance of its substance and competitiveness—the better secured their pensions will be?

In advocating the necessity for preserving and making more prosperous the equity of British industry, for getting a stronger and more virile capitalism, I am laying myself open to the charge of demanding preferential treatment for one section of the community, the owners of that equity. To that, I have two things to say.

First, let us make the ownership of that equity as widespread as possible; let us have a true property-owning democracy. Secondly, let us remember that on that equity every other facet of our life depends. If that equity withers and decays, all else withers and decays too.

Capitalism in Britain faces three threats. The first comes from within capitalism itself. It is the danger of a return to the restrictionism of the inter-war years to which I have already referred.

If a capitalist system, in whatever country, develops a defensive, restrictive, monopolistic tendency, not only does the economy of the country suffer but the opponents of capitalism are presented with a plausible case for converting private monopoly into State-owned industry. The best assurance capitalism can give that its profits and dividends are not excessive—indeed the only assurance—is to prove that they are earned in fully competitive conditions.

The second threat is the political threat—that of a continued vendetta against capitalism virtually regardless of whether it is good or bad capitalism. What I have in mind here is typified by the recent remark of a leading trade unionist that wage

claims would be made not because profits were higher (in fact, they were lower last year) but 'because profits exist'.

The best answer to this threat is surely on the lines I have indicated—the creating of conditions in which profits can only be earned by initiative and enterprise, and the expression of those profits—and the dividends paid from them—in more realistic terms than those we at present employ, by the exorcising in times of inflation of the stock appreciation element in profits, by a truer statement of capital employed, and so on.

The final threat is a long-term threat, but it is no less worrying for that reason. It is the threat implied in the aggregation of power in relatively few hands.

### Private Investor Dying

The private investor, as we have known him, is dying. There are indeed grounds for thinking that, because of the present level of death duties and the tendency to consume capital, the private investor year by year is taking more money out of the Stock Exchange than he puts in.

His place is being taken more and more by the corporate investor, some of whom, notably the pension funds, have probably their period of greatest growth ahead of them.

If this trend continues, the Stock Exchange, the issuing houses and other parts of the City's machinery will lose their function. Already, stockbrokers are described as 'messenger boys' for the Prudential and the Pearl.

Unless something is done to reverse present trends, this country's private sector investment programme

will, in twenty years' time or even earlier, be financed entirely through ploughed back corporate earnings and by the big financial institutions, which proliferate endlessly these days.

The objections, on economic grounds, to such a prospect are serious enough. Concentration of control of a country's investment programme to such an extent means a denial of the benefits of the law of average and of the judgment of the market place alike. It would in such circumstances be difficult if not impossible for the young, the untried and the speculative business to secure finance. The *status quo* would receive powerful and permanent reinforcement all along the line—and no industrial nation prospers by maintaining the *status quo*.

The political objections are equally powerful. The construction of such an industrial and financial oligarchy would, I am sure, be an overwhelming temptation to the politicians to take its control and direction into their own hands—and probably with the consent of a majority of the electorate.

Somehow, we have got to find a new capitalism to take the place of the old, a capitalism which is in accord with the changes in the ownership of wealth which the last fifty years have brought.

It may be that we shall find a way of spreading the ownership of industry without disfranchising the multitude of small, indirect capitalists we have created and are creating. I confess, however, that I would feel happier if capitalism faced up to its problems in a more energetic and far-sighted fashion.

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## Commodity Shunting: Its Impact on Controlled Sterling

BY PROFESSOR J. E. MEADE, C.B.E. (*University of London*)

CONTROL of sterling becomes increasingly difficult to maintain in its present form if other countries' controls are becoming laxer.

A main symptom of these difficulties is the phenomenon of cheap sterling. This is a complicated and intricate question; and one greatly simplified example of it must serve to illustrate the main points which are relevant to the argument of this article.

Let us start with some merchant in a country which we will call Entrepotica. This country is a member of the transferable account system as far as the United Kingdom exchange control is concerned. It has merchanting arrangements which enable it—as its name suggests—to be the home of a flourishing entrepot trade in commodities.

The merchant of Entrepotica uses some sterling which he has earned to purchase wool from Sterlaria, a country which—as its name may suggest—is a full-fledged member of the sterling area. The merchant from Entrepotica satisfies the Sterlarian exchange control authorities that the Sterlarian wool is being bought for sale in Entrepotica. In fact the wool is at some point trans-shipped and ultimately sold for dollars in the United States.

The Entrepotic merchant has now acquired dollars. These dollars he uses to purchase nylon products in the United States which he imports into Nylonia, another transferable account country. With the proceeds of the sale of nylons in Nylonia the

Entrepotic merchant acquires transferable sterling which he can then use to purchase wool in Sterlaria, and so start the cycle of transactions once more.

### Beyond U.K. Control

This whole sequence of transactions is, of course, most unlikely to be undertaken by one single trader as has been assumed to be the case in this simplified example. Moreover, the number and variety of transactions concerned may be much more complicated than in this example. They may well involve payments for invisible rather than for visible trade transactions. Nevertheless, this simplified trading example illustrates certain basic features of this sort of transaction.

(i) In the first place, the total result of these transactions is that dollars which should have been acquired for the sterling area central reserve from the sale of Sterlarian wool to the United States have been indirectly acquired for use by an importer of American nylons into Nylonia.

(ii) Secondly, the control of such transactions depends upon the co-operation of many national authorities besides those of the United Kingdom. It will be the concern of the Sterlarian authorities to try to see that their wool is not exported against sterling if it is in fact ultimately going to be sold for dollars; it will be the concern of the Nylonian authorities to see that the dollar nylon goods are not easily imported into Nylonia; it will be the concern

*From The Convertibility of Sterling, Three Banks Review, London, September 1953*

of the Entrepotic authorities to see that when their merchants acquire dollars these dollars are surrendered to their exchange control; it will be the concern of the Nylonian and Entrepotic authorities to see that transferable sterling is transferred between their residents only against genuine current transactions between them. None of these things has been successfully achieved in the above example, but none is a matter which the United Kingdom authorities can themselves easily supervise.

(iii) A third basic fact in transactions of this type is that they will be undertaken at least implicitly at a depreciated value of the pound in terms of dollars. The scarcity of American nylons in Nylonia makes it possible to make a very large profit by buying them cheap in the United States and—at the official rate of exchange—selling them dear in Nylonia. If at the same time Nylonian residents hold considerable sums of sterling, in order to take part in this profitable trade they would be prepared to offer a high sterling price to the Entrepotic sellers of dollars or of dollar goods; and the Entrepotic seller of these dollars or dollar goods will require a high price for them in sterling because in acquiring them he has probably had to sell the Sterlarian wool at a low price in dollars and will have incurred special risks and costs in shunting the sterling commodity on to the dollar market. The problem of cheap sterling can thus be tackled either by making the dollars acquired by commodity shunting and such devices less useful or else by making them easier to obtain.

The convertibility of foreign-held sterling is, of course, a method of getting rid of cheap sterling by making the dollars easy to acquire. If the

Entrepotic merchant can simply buy dollars freely with his transferable sterling, there will no longer be any need for him to shunt Sterlarian wool at considerable expense by devious channels into dollar markets as a means of acquiring dollars. This will not in itself do anything to prevent the use of these dollars for the import of nylons into Nylonia, but it will avoid the uneconomic disturbance of the Sterlarian wool export trade.

If the convertibility of foreign-held sterling could be accompanied by more effective commercial controls which, in our example, made it more difficult for importers to bring American nylons into Nylonia, the problem of cheap sterling would have been tackled at the other end as well.

But it would be foolish to hope to make it much easier for foreigners to convert sterling into dollars and simultaneously to make it more difficult than before for them to use any dollars which they do acquire. The most that could reasonably be expected would be that, simultaneously with the introduction of the convertibility of foreign-held sterling, understandings should be reached with the foreign authorities concerned not to be induced by the fact that their sterling earnings were now convertible to relax their own controls over the import of dollar goods or to stiffen their controls over the import of sterling goods.

But from the point of view of an international currency like sterling there is something to be said for a system in which the emphasis is shifted away from exchange controls on to trade and other controls as the method of maintaining the liberalisation of intra-European trade and payments together with a degree of discrimination against dollar transactions.

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## STERLING AREA: Changes in the Trade Pattern

BY SIR DOUGLAS COPLAND

THE problem of capital supply is perhaps the most significant factor affecting the structure of the sterling area and the enduring contribution it can make to the fortunes of its members, and to the working of the world economy as a whole. But we have also to consider the relationship to the world economy of the economy of the area as a whole, and of those of its individual members.

In this respect one of the most significant developments is the change in the proportion of trade enjoyed by the members of the area within the markets of the area itself.

In the comparison that follows I take the pre-war period and 1950, because 1950 was clear of the great impact of higher prices for commodities of international commerce and was unaffected by the restrictions that had to be imposed early in 1952. On this basis, it is found that exports from the United Kingdom to overseas members of the sterling area have risen from about 48 per cent of total United Kingdom exports to 55 per cent.

What was the situation with regard to the exports of the overseas members to the United Kingdom market? As a whole, the proportion of their exports going to the United Kingdom declined considerably. (See Table.)

Canada is a special case, as she is not a member of the sterling area. A decline in her exports to the United Kingdom was to be expected under conditions in which dollars were hard to acquire. But for all the other Commonwealth countries, them-

EXPORTS OF OVERSEAS MEMBERS TO  
UNITED KINGDOM  
(As percentage of total value of exports)

	1937	1950
Australia	50	39
New Zealand	76	66
India	33	22
Pakistan		17
Ceylon	46	24
South Africa	38	26
Canada	40	15

selves members of the sterling area, the movement is too significant to be ignored. If this condition is maintained, it is clear that the relative importance of the United Kingdom market has declined since the war.

But this is precisely what one would expect to happen, and it is a trend that may well continue in the years ahead. For one thing, in the post-war world there has been a more wide-spread, as well as a greater, demand for defence supplies probably than at any other time in peace. This could not but affect the trade of the overseas members of the sterling area who produce a wide range of the basic materials used in defence supplies.

Then there is the general tendency, especially in the United States, for the demand for raw materials to outstrip supplies, on present capacity to produce. The output of the American economy is expanding at the rate of some  $2\frac{1}{2}$  per cent per annum, and at this rate the gross product of the economy will double in less than thirty years.

*From Problems of the Sterling Area, Essays in International Finance No. 17, Princeton University, New Jersey, September 1953.*

Not merely will the United States demand more and more of certain materials of which she is in short supply. The countries that will have to step up their production, and the overseas members of the sterling area play an important part here, will also be demanding increased quantities of capital equipment during the gestation period in which they are expanding their output of basic materials. So, on this basis, there is some hope of an expanding world economy; the underlying economic forces are working mostly in the right direction, though they often have to contend with strongly entrenched lobbies that will endeavour to set back the normal course of events.

For the overseas members of the sterling area, this whole development of a stronger market outside the area for basic materials is a matter of great moment, and must affect, almost as much as does the problem of capital supply, the structure and development of the sterling area.

The overseas members of the area will continue to expand their production of manufactured goods and to build up their transport systems and power supplies, but their principal source of development and wealth in the next two decades will be in exporting certain basic materials and foodstuffs which we have seen are likely to be demanded in increasing quantities. The members of the sterling area can supply largely increased amounts of such goods as rubber, tin, burlap and jute, wool, diamonds, hides and skins, cocoa, tea, spices, uranium, tobacco and perhaps oil. But this in turn depends upon satisfactory plans for expanding production; so the problem of capital supply and the problem of trade converge on the same point, namely a closer association than was contemplated in the years immediately following the war between the members of the sterling area, collectively or individually, and the dollar area.

#### FARM INDEBTEDNESS IN PRAIRIE PROVINCES OF CANADA

The year 1935 marked the highest point of dollar indebtedness, and probably the highest encumbrance ratio for the Canadian Prairie Provinces, principal wheat and other cereal producing area. In that year, total farm debt in the Prairie Province was \$869.5 millions as against total farm values of less than \$2,000 million, giving an encumbrance ratio of some 45 per cent.

The year 1937 was one of the best of the immediate pre-World War II period. Farm debt had fallen by over \$80 millions in the preceding two years; total farm values had risen; and the encumbrance ratio had fallen below 39 per cent.

Repayment of Prairie farm debt mainly occurred between 1937 and 1946, largely concentrated in the last three years of World War II. In short the average liquidity of the Prairie farmer was nearly three times better in 1946 than it was in 1937. This improved liquidity has continued steadily to 1951, when it was more than four times better than 1937; and some five times more favourable than in 1935.

Total indebtedness (in millions of Canadian dollars) in 1937 and in post-war years, shown in each instance also as a percentage of total farm values, was: 1937, 783.6 (38.7 per cent); 1946, 367.9 (13.7 per cent); 1949, 388.2 (10.3 per cent); 1950, 408.0 (9.9 per cent); 1951, 450 (8.7 per cent); 1952, 486.0 (estimated 10.1 per cent).

*From Memorandum prepared by Gilbert Jackson and Associates, Toronto, September 1953*

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## Outlook for £ Convertibility: Not Only Washington's Responsibility

THE outlook for convertibility would be more promising if less reliance were placed on further financial assistance and on unilateral action by the United States in lowering trade barriers and stimulating foreign investment; also if it were made clearer how lasting convertibility is to be reconciled with other national objectives.

Why has restoration of convertibility taken so long?

The familiar reply is that the physical destruction and economic dislocation caused by the war created an abnormal demand for foreign goods in many countries and at the same time reduced the ability of those countries to pay for the goods by exporting. In particular, there was an urgent need for goods from the United States, because this was the only large industrial nation whose productive capacity had not been impaired by the war.

The result was a persistent disequilibrium in balances of international payments, especially the 'dollar gap' in payments between the United States and other countries. This chronic unbalance made general currency convertibility impossible, since it would have quickly drained away reserves of gold and dollar exchange.

### Conflicting Objectives

From another point of view, convertibility has not been achieved because it has been subordinated to other objectives.

First, in an effort to make the 'terms of trade' as favourable as pos-

sible to themselves, most countries tended to fix the exchange values of their currency too high. This mistake was partly rectified by the general devaluation of 1949. Yet the 'dollar gap' continued.

This gap was simply a reflection of the fact that most currencies were overvalued in relation to the dollar. Their exchange rates were relatively higher than their internal purchasing power. In attempting to maintain these artificial rates, nations resorted to barter, exchange controls, multiple rates, import and export licences, quotas, and other devices. Convertibility under such conditions was obviously out of the question.

These difficulties were aggravated by the insistence of many countries upon living standards and social programmes which they were in no position to afford. In pursuance of such programmes, budgets were kept out of balance, money supplies were expanded, and wages were raised without regard to changes in productivity. The resulting inflation naturally widened the disparity between internal purchasing power and exchange rates, and made the problem of international payments more difficult than ever.

Similar practices were followed in reconstructing war-damaged industries and in developing backward nations. Investment programmes were drawn up and financed without sufficient regard to limitations in available supplies of labour and materials. Again, the results were inflationary, and international disequilibrium was made worse.

*From Guaranty Survey, Guaranty Trust Company, New York, October 1953*

### Proposed No-Par Currencies

Some commentators maintain that the whole job of post-war financial rehabilitation was begun at the wrong end. According to this view, convertibility could have been achieved quickly if national authorities had not chosen fixed exchange rates as a prior objective. The original mistake, these critics believe, was the 'pegging' of the rates, which created an artificial stability not warranted by underlying conditions, and thus led to inconvertibility and all the other restrictions and barriers that were found necessary.

In a free market, supply and demand balance because the price is right. The market for foreign exchange is no exception. An exchange rate is a price, and its proper function is to maintain a balance between the supply of a currency and the demand for it. Even now, according to some spokesmen for this school of thought, fluctuating exchange rates would be preferable to continued inconvertibility or to the measures that would be found necessary to maintain convertibility at fixed rates.

Such views run counter to traditional thinking on monetary affairs. A currency that has no fixed value in terms of money metal, or of currencies convertible into money metal, is regarded as a 'soft' currency in the worst sense. It has ceased to be even a nominal standard of value. It undergoes a continuous process of devaluation and revaluation. Even inconvertibility and the other restrictions that go with it are usually accepted as lesser evils than this.

Yet it cannot be denied that, in an age of 'managed' currencies, fluctuating exchange rates have a logic which they lacked in the days of the international gold standard. Adherence to the gold standard deprived

nations of control over their internal price and wage levels. These levels had to remain approximately in line with those in other countries. If they got seriously out of line, they caused disequilibrium in the balance of payments, a flow of gold, and an internal credit readjustment that forced prices back into line.

Such readjustments sometimes entailed temporary recessions in business activity and employment. Hence they were incompatible with any national 'full-employment commitment', as well as with wage and agrarian programmes that involved price manipulations, and with social-welfare schemes that upset national budgets. *In short, nations came to demand a degree of sovereignty over their internal economic affairs that was inconsistent with the requirements of the gold standard, or in fact with any set of lasting parities among currencies.*

The natural result of these tendencies was an era of currency devaluations. Successive revisions of exchange parities are the unavoidable consequence of currency 'management' directed at internal policies rather than international currency considerations. From a regime of successive devaluations or revaluations, it is only a step to a regime of no-par currencies.

### Fixed Parities Still required

It seems clear that the world is far from ready for such a final step into monetary confusion. Fixed currency parities still command world-wide respect and adherence. The nations desire convertibility at a firm rate. But are they prepared to pay the price? Or are they aiming at a set of mutually incompatible objectives?

*Current discussions contain too much talk of huge stabilisation funds (presumably to be financed by the United*

*States) and willingness to meet requirements of values.*

A similar situation exists in the policies of the United States, which have created barriers to international trade.

It seems that convertibility is not a desirable goal, and that the world is not ready for a freer, more open international system.

Superficial convertibility is at least a necessary condition for international trade.

The first step is to make it possible for the world to trade in September.

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The following table shows the 1945: no. 1951: 130.

The value of the world together with the world. It is not in general, scooters:

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At present, the chief countries of the world are types of socio-economic markets.

States) and too little of the ability and willingness of nations to observe the requirements of true stability in currency values.

A similar lack of realism appears to exist with respect to the trade policies of the United States. Repeated demands are made for lower American tariff rates. Too little is said, however, about foreign tariff barriers. *Economic health demands general trade liberalisation, not a free-trade United States in a protectionist world.*

It seems necessary to assume that convertibility implies a regime reasonably free from trade restrictions. It would be easy to establish nominal convertibility and accompany it with such rigid trade controls that international transactions would be no freer, and possibly less so, than they are now. Such actions would amount to nothing more than substituting one type of control for another.

Superficially, the move toward convertibility seems firmly founded, at least in so far as current-account

transactions are concerned. The problem of capital transfers is more difficult. The once-troublesome 'dollar gap' appears to have vanished, for the time being at least. During the fifteen months ended June 30, 1953, foreign countries were able to build up their reserves of gold and dollars by a total of nearly \$2,800m. These reserves now amount to \$21,600m, whereas the United States gold stock has declined to \$22,500m. Exports from the United States, exclusive of military aid, are running close to imports, and the small export surplus is much more than offset by the excess of 'invisible' imports.

*There seems to be no basic reason why steps toward currency convertibility on current account cannot safely be taken within the reasonably near future, provided the nations attempting it are prepared to adjust their economic policies to its requirements. If they are not, no regime of convertibility can be more than temporary, and no multi-billion-dollar stabilisation fund can make it.*

### ITALY'S MOTOR-SCOOTER INDUSTRY

The first motor-scooter model to appear in Italy was the Vespa, in March, 1947, and at once it met with great popularity. The second type, known as the Lambretta, which appeared in September of that year, was equally successful.

Since then their sales have continued to grow and many other types have followed, manufactured by various firms. All are very popular both in Italy and abroad, so much so that there are today not less than 60 different types of motor-scooters in Italy and abroad.

The following are the production data of motor-scooters in Italy:

1945: none at all; 1946: 1,200; 1947: 10,500; 1948: 30,500; 1949: 70,500; 1950: 125,000; 1951: 130,000; 1952: 220,000.

The value of the motor industry in Italy is about 20,000 million lire, and the various plants, together with collateral concerns, employ about 100,000 persons.

It is not true that the motor-scooter is a means of transport for students and for the young in general. The following table gives us an idea of the classes and ages of persons using motor-scooters:

Classes of persons		Classes of persons		Ages	
Working men .....	30%	Professional classes .....	7%	From 18 to 20 years...	5%
Employees .....	30%	Students .....	3%	From 21 to 31 years...	40%
Traders .....	16%	Doctors .....	2%	From 31 to 40 years...	35%
Artisans .....	10%	Priests .....	2%	Over 40 years.....	20%

At present, interest in this means of transport has increased to a very large extent in all the chief countries of the world, and many foreign manufacturing firms present their own special types of scooters. Nevertheless Italian production is still ahead of other countries in the leading markets.

*From Italian Affairs, Rome, September 1953*

## Australian Hedonism Trounced

*The surface symptoms of the health of the Australian economy may be on the whole favourable, but deeper diagnosis gives cause for some uneasiness*

THERE are several grounds for disquiet in Australia.

First, the economy, in spite of improving productivity in some directions, is still basically an inefficient economy. This does not mean that there are not many efficient industries, efficient even by the highest world standards. It simply means that, taken as a whole, the rate of achievement in the Australian economy, the man-year output, whether in a public utility concerned with transport, the building of a bridge across the Yarra, customer service in many fields, or a decision on a site for a great sporting event, is far lower than it could be and lower than in other English-speaking countries.

The plain truth is that too many Australians, by and large, do not work hard enough. Effective working hours (after deducting holidays) are very much shorter than in other countries, and there is often not the same intensity or seriousness of purpose on the job. This comment applies to all sections; to employers as well as employees; to the typist as well as the technician.

The Australian attitude to work is largely a response to an unusually beneficent environment. The Australian possesses natural facilities for recreation and enjoyment which are probably unequalled in any other country in the world. If the Australian worker, unlike his American counterpart, lacks a refrigerator and

a television set in his home, he has on the whole more opportunities for sun-bathing and sport. Australia can for the present, afford the luxury of short hours of work and get by. Britain cannot. In Britain the labour movement has embraced the aim of high production and accepted the need for incentive schemes, because of the grim alternative of a declining living standard for its members. In Australia the trade unions are able to persist in their opposition to industrial methods of this kind only because conditions of life are easier.

The American looks always to the future which he is certain can be better than the present or the past. The Australian seems more concerned to preserve what he has. He is not so intent on acquiring the latest model motor-car, as he is on ensuring that his weekly excursions to the football or the races are not interrupted.

To the casual observer the large numbers of modern factories that have sprouted like mushrooms around the outskirts of Sydney and Melbourne, the spectacular industrial progress of provincial centres such as Geelong and Dandenong, the many massive public projects at present under construction, may seem to contradict assertions of low productivity.

The visual evidence of rapid economic expansion is indeed impressive. But several qualifications must

*From The Challenge, I.P.A. Review, Melbourne, Australia, June 1953*

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## High Co

A second high level of disparity in the Italian cost of wage rate increases averaged for British or about 100. Hourly wages increased more than the war, in Britain only 71 per cent. The primary gallop faster rate of English-s

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be borne in mind. First, the expansion of the post-war years must be viewed against the background of an increase in population of 20 per cent. Second, development on the scale that has occurred would not have been possible without the fortunate conjuncture of a succession of good seasons and abnormally high prices for the products of the soil. High returns from exports have buttressed development not only by giving Australia a greater command over the resources of other countries, but also by encouraging overseas investors to take an optimistic view of Australian prospects. To what extent, too, new capital construction has been at the expense of existing capital resources—for instance, the running down of capital invested in roads and transport facilities, and city buildings—will never be accurately known.

### High Costs: Low Saving

A second serious weakness is the high level of costs. There is a gaping disparity between British and Australian costs of production. Hourly wage rates in Australia for male workers average about 8s. Average rates for British workers are 3/10 (sterling) or about 4/10 (Australian currency). Hourly wages in Australia have increased 149 per cent since the end of the war, compared with increases for Britain of 59 per cent and for U.S.A. 71 per cent. The post-war inflationary gallop has proceeded at a much faster rate in Australia than in other English-speaking countries.

A cost disparity of these proportions creates a fundamental out-of-balance situation in the economy which suffers from it. It can be sustained only by virtually excluding all overseas competition from the home market (which has, in effect,

been done through the import restrictions) and only so long as prices for major exports remain sufficiently high to return a margin of profit over the excessive costs of export producers. Unless Australian costs move closer to world levels, the import restrictions imposed as a temporary expedient may have to be continued longer than is desirable.

The scarcity of savings as evidenced by the difficulty of obtaining adequate monies for financing developmental projects and private industrial expansion is a third disturbing feature. The savings famine is partly a consequence of a tax structure which saddles enterprise with a burden ill-suited to a young country striving to grow to full industrial maturity.

Finally, the rather tenuous character of Australian prosperity serves to emphasise further the distinction which it is imperative to draw between basic economic conditions and immediate business prospects. A steep fall in prices of wool and wheat (which have fortunately remained firm) or a drought year (not unknown in the past) would have unpleasant consequences for Australia's over-inflated economy and would compel far-reaching re-adjustments. The dependence of Australia on a continuance of high prices for wool and wheat, especially the former, reveals the shaky foundations on which Australian stability and prosperity rest.

Experience since the war only confirms what was well known before the war: that is, the unique reliance of the Australian economy on one product, wool. This alone should prevent us from accepting without reservation the optimistic assessments of the business outlook which have recently appeared.

## Japan's Trade-Promotion Plan

THE Japanese Ministry of International Trade and Industry has decided to introduce a special trade formula to balance its international accounts and to economise on foreign exchange.

The new programme includes the re-export of goods from the dollar area to open account areas, the linking of preferential imports with exports of items for which wider market outlets are needed, and the removal of present barter trade restrictions.

The re-export system will apply to trade with countries in the open account areas from which Japan is over-importing. The items to be earmarked for such re-exports will include raw cotton, raw wool, soya beans, and goods that do not conflict with other items in the export promotion drive. A sum of \$30 million will be set aside in the foreign exchange budget for the special imports for this purpose from the dollar area.

Under the new link system, traders who succeed in increasing the export of goods requiring further outlets will be granted preferential treatment in the import of sugar, pulp, raw wool, and some other items. The export goods will include iron and steel items, fertilisers, whale oil, and plants.

The system will be limited to trading with thirteen open account countries. In order to help build up the country's decreasing sterling reserves, traders who export to the sterling area will be granted a special right to import from the dollar area. Between \$30 million and \$50 million will be earmarked as a special appropriation for this link system.

The trade promotion plan also calls for the abolition of existing restrictions relating to key items in trade with the Near East, Middle East, and Latin American countries.

*From Nippon Times, Tokyo, September 4, 1953*

### RUPEE AND STERLING CONVERTIBILITY

BY D. BRIGHT SINGH (MADRAS)

The circumstance that Great Britain has been faced with frequent balance of payments crises has aroused some misgivings about the advantages for India of remaining in the Sterling area. The argument is made in some quarters for the complete dissociation of the rupee from sterling, by India cutting herself away altogether from the Sterling area. This, however, by itself would not raise the status of the rupee, nor would it remove the foreign exchange difficulties of the country. In fact, this would increase the difficulties as the recent experience of Egypt abundantly shows. It means that India would have to balance its dollar account separately, and would necessitate her building up gold and dollar reserves, both of which seem insurmountable difficulties in the present circumstances. On the other hand, there are definite advantages for India in remaining in the Sterling area. The Sterling area is something of a co-operative organisation with large capital resources, in the form of gold and dollar holdings which facilitate free trade among the members of the area. Also, in so far as a good volume of our surplus funds is maintained with Great Britain, which is actually in the position of a Central Banker of the Sterling area, it would be unwise to remove ourselves altogether from sterling's orbit.

Free convertibility of sterling would automatically make the rupee freely convertible with all other currencies.

*From Monetary Standard in India, Indian Economic Journal, Bombay, July 1953*

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## Stresses Ahead For Japan

SOME very pessimistic discussions are now taking place in Japan on the country's economic outlook.

The Ministry of Labour in Tokyo has issued a White Paper with alarming warnings about coming unemployment. It describes the trends of both employment and wages as downwards.

Out of 900,000 new entrants to the labour force last year only 810,000 found jobs, leaving 90,000 to swell the ranks of the unemployed and raising their total at the end of the year to half a million. Besides these there were 8,130,000 (half a million more than in 1951) who were under-employed—working less than thirty-four hours a week.

An official estimate for this year is that there will be employment for only 390,000 more, which means a still further addition to the unemployed.

This unemployment, open and concealed, is the reflection of Japan's great problem, that of building up an economy that can support her steadily rising population. As the *Mainichi Shimbun* put it recently:

'If things continue as at present Japan's economy must inevitably reach an impasse. With its population steadily increasing and more mouths to feed Japan must either make strenuous efforts to increase production and trade or lower its living standards.'

The signs of lower living standards are disquieting, and there are many efforts to shake the country out of its cheerful disregard of what the economists conceive as the writing on the wall.

The Government, however, rather discourages a frank facing of the facts. It looks for more American aid,

rearmament, and orders from the rehabilitation of Korea. Yet there are limits to what Japan can expect from America by loan or 'special procurement orders'. And, as for Korea, it was only the other week that the South Korean Finance Minister said very forcibly that South Korea would object most strongly to reconstruction funds being spent in Japan; and South Korea has shown its powers to make its wishes felt.

### Out-of-date Equipment

It is not easy for the Western observer, so accustomed to regard Japan as a formidable and highly efficient competitor, to realise that Japan is now being told that her industries need modernising.

The coal industry, for instance, could do, it is said, with a fifth fewer miners if its old and inefficient pits were closed. Everywhere there is talk of export costs being too high; for example, of rayon yarn Japanese papers report that she is being undercut by Italy in Pakistan.

Yet modernisation would for a time at least increase unemployment. The long-run prescriptions of more hydro-electric power, more food production, population control, and the better use of the country's natural resources are hardly helpful for the immediate crisis. The export outlook, in spite of the feverish efforts to secure trade agreements, remains poor.

It is evident that severe stresses are ahead and these may easily mean a return to the competition by cutting quality, which the West so much fears.

*From Manchester Guardian, September 18, 1953*

## Adenauer's Mandate : BY F. HELLWIG

*Summary of points from the Christian Democrat Party's 'Hamburger Programme' on which Adenauer was returned to power*

**Broad Principles:** The CDU is adverse to totalitarian ideas and rejects concentrations of power such as might result from the nationalisation of major industries or a comprehensive social security system, but it is fully aware of the desire for security and a stable currency which is a natural consequence of the nation's experience of having lost its savings twice in a lifetime.

The 1949 election programme of the CDU put 'Soziale Marktwirtschaft'—a competitive market system coupled with essential social security safeguards—in place of the centrally directed economy of the Hitler era. This competitive market economy aims at the most efficient satisfaction of national needs with the minimum use of political and social power. Such a system is, in fact, the only possible economic framework for Germany, for central direction and control has become impossible under the present German Constitution, with its wide dispersal of political power which is wielded not only by the Federal Government, but also by the 'Länder' governments, the provincial and local authorities, as well as by the trade unions, trade and employers associations, and by other bodies and institutions.

A minimum measure of social security there must be, but too much of it gives the administering bodies excessive power over the individual.

It also leads to a weakening of productive incentives and of personal initiative and thus tends to undermine the very foundations on which social security rests. If a choice between freedom and security must be made, the question should always be asked whether the partial renunciation of freedom for the sake of security will not ultimately lead to the complete loss of freedom. The answer to the problems of economic distortions caused by economic controls, some of which still operated in the past five years of CDU government, does not lie in the imposition of yet stiffer controls but in their gradual removal and the freeing of the market and the full restoration of the price mechanism.

This is broadly the philosophy underlying the economic programme of the CDU. The programme itself stresses the responsibility of the individual which, in economic terms, means freedom of choice in every sphere, with the State only intervening or assisting where individual effort cannot do the job. It rests on the principle of developing all creative and productive forces through competition, and of making essential social security and welfare provisions out of public and private means only as far as the economy can safely support them, the guiding thought being that a secure economic policy is the best social security policy.

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*From Wirtschaftsdienst, August 1953*

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of the promises made when it formed its first Government, tremendous tasks still lie ahead if all sections of the population are to benefit from German recovery and revival. At least the nation can now rely again on an efficient productive apparatus, so that the CDU can enter with some confidence on the second phase of its programme. This aims broadly at the further expansion, improvement and cheapening of production and the raising of living standards, particularly of the less privileged sectors of the population which include pensioners, war victims, public servants, salaried workers, peasants and the professions. A further main objective is the broadening of the basis of private ownership.

*Protection of Consumer:* In view of the important part which the consumer has to play in a competitive economy, a deliberate and active consumer policy is a prominent feature of CDU's programme. It envisages market surveys, various forms of consumer protection, consultation and information, cost reduction, research and the introduction of improved techniques and methods. Rationalisation is necessary not only in production but also in distribution, and provisions must be made to ensure that cost reductions are passed on to the consumer in the form of lower prices. Increased turnover permitting a smaller profit margin per unit must be the guiding maxim in business.

*The Trade Unions* are recognised as a powerful regulating force, with the vital social function of watching over the workers' rightful place in society and their fair share in the national product. They must, however, not attempt to become an end in themselves but remain a means to an end

and shoulder their share of responsibility for the beneficial functioning of the free market economy.

*Other Concentrations of Economic and Political Power:* Cartels, monopolies and price rings hampering competition are rejected, but nationalised services and industries must likewise be made more efficient by subjecting them to competition. An extension of State enterprise is incompatible with a competitive market economy, but large existing concentrations of economic power must be publicly controlled. The law on unfair competition must be revised.

*The Fight against Unemployment* is a further main objective of CDU. Since 1949 new employment has been provided for 2½ million people, and productive investment and suitable credit policies will continue to be used to secure industrial expansion and additional employment.

*The Expansion of Foreign Trade* features prominently in the programme, since it has an immediate impact on employment and living standards. Some 90 per cent of Germany's trade is now liberalised, and both foreign trade and internal consumption have benefited. German exports must be able to compete with foreign products and there must be protection against exchange risks, as well as adequate insurance provisions, export credits, tax relief, and an extension and improvement of the information and consular services abroad.

*Transport:* Germany lacks a properly co-ordinated transport system. CDU therefore aims at the integration of rail and road services and internal waterways so as to avoid waste and enable the different services to operate more efficiently at

lower costs. This implies the infusion of a healthy element of competition and removal of the official heavy burdens imposed on the railways. These official obligations entail working at a loss and they constitute a serious threat to one of Germany's main transport assets. CDU emphatically advocates a speedy expansion of German merchant shipping which is an important earner of foreign exchange.

*Small and Middle-Sized Business* by its efforts contributes considerably to the national income and a large part of it passes through the hands of the middle-class traders. To ensure the continued existence of these smaller businesses the CDU proposes long-term credit facilities at favourable interest rates and a larger share of Government contracts for the small production units. Restrictions on State enterprise, monopolies and international cartels would also be of benefit to them.

*Position of Intellectuals*: CDU realises that the custodians of the nation's intellectual capital have had a raw deal and proposes to improve their economic position. This applies to the professions, salaried workers, teachers and university professors and public servants.

*Agriculture* must be encouraged to achieve maximum production at competitive prices by more efficient methods. The financing of the agricultural programme will entail some use of public funds, especially for land clearance, irrigation and soil improvement. Better credit facilities for long-term investment are also needed, as well as tax concessions for farmers willing to rationalise their farming methods. Undue social burdens must be removed and the farmer's wife relieved of some of her

heavy duties. Stress is laid on the need for training agricultural workers and on creating more permanent jobs in farming.

To promote stability of supplies for the home market, there must be co-ordination between internal production and the supplies position in world markets. Improved facilities for holding larger reserve stocks and suitable tariff and price adjustments will help to ensure stability of supplies.

*The Family and Housing*: Healthier and happier family life is to be promoted by children's allowances (which are to be financed out of special family equalisation funds) and through paying special attention to housing for larger families. The house with garden rather than the large tenement block of flats is regarded as the proper family home, and this type of housing, which is also the most popular type of private property, will be given priority and special credit facilities. The CDU proposes to ask for special Building Land and Land Valuation Acts which could curb speculation in real property. Tax reliefs, and the allocation of available dwellings as well as public funds for house construction, must likewise give preferential treatment to the needs of the family.

As a result of war damage and the continuing influx of refugees there is still a shortage of about 4 million dwellings in Germany and the provision of suitable dwellings will remain an urgent task for many years to come. The CDU with its strong bias in favour of individual house ownership as against ownership by large building concerns welcomes the new legal facilities for property or at least permanent occupation rights of flats and will seek to extend these

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legal facilities to cover also rented houses and flats originally financed from public funds. Publicly financed house building must be open to free competition by private builders. Additional incentives to private building will be provided by giving tax reliefs for rents in privately owned houses if they constitute an excessive burden on the lessee. There will also have to be revision of the Rent Restriction Act, entailing adjustments of pre-war rents to current costs, wages and prices.

*Finance and Fiscal Policy:* The CDU programme aims at the promotion of a strong currency as a prerequisite of further trade liberalisation, at budgetary balance and at fiscal reform. Lower taxation is to be made possible through economies in Government expenditure, reduced public capital investment and downward adjustments in expenditure on European defence. There is to be a redistribution of taxation so as to promote production, private capital formation, efficiency and competitive ability, to mitigate hardships in individual sectors and to assist the large family. Fiscal reform must include the speedy revision of sources of revenue with a view to restoring the financial independence of the Federal Government and the autonomy of the 'Länder'. Self-financing within industry will be encouraged by fiscal provisions, but the main supply of finance for new productive investment must come from a well-functioning capital market. Measures encouraging nation-wide saving will be taken.

*Savings and Co-ownership:* There

must be a just distribution of the national income by a fair wages policy, but the wage-earner and employee must also be enabled to participate in the ownership of the nation's productive capital. A broader basis of capital ownership will reduce insecurity and mitigate the class struggle. This is a social and economic problem of the first order. The CDU considers it essential for all sections of the population, and labour in particular, to realise that two things go to make up the nation's standard of living—the level of consumption on the one hand, and the level of capital formation on the other. The German worker has gone far in renouncing a proletarian view of life. To encourage him further, the CDU deems it necessary to enable him to acquire ownership rights in industry. This would not only help to meet industry's capital needs but also increase the worker's and employee's sense of security.

In contrast to the guild of central planners who hold that investment financing is mainly the duty of the State, the CDU intends to strengthen the saving propensity of the individual. There can, however, be nothing formal or rigid about the proposed measures. Saving must remain voluntary and the State will merely provide suitable incentives (e.g., tax reliefs) for an increased and more broadly based interest in all forms of individual property ownership. The CDU hopes that the trade unions will raise no objections because of suspicions that property-owning workers might be less dependent on trade union protection.

## New Deal for Farmers in Hungary

BY LAWRENCE KIRWAN

It is now possible to sum up the measures introduced by the Hungarian Government to bring prosperity to the farmers and to provide greater supplies of food in the towns.

When Prime Minister Imre Nagy introduced his Government's programme at the first session of the newly elected Parliament at the end of June, he laid special stress on the need to encourage farming, which had lately suffered from an excessive concentration on investment in heavy industry.

Since then a series of legislative acts has put this policy into action.

Assistance to farmers is taking three broad forms:

(1) Lowering of quotas of products which have to be sold to the State at fixed prices, thus leaving more to be sold on the free market.

(2) Increased loan assistance for farm development and the relaxation, or even wiping out, of existing loan repayment obligations.

(3) Provision of free or cheaper services, such as machine help, to the farms.

Hungary has three types of farm economy—the big State farms, the producer co-operatives in which individual farmers band together in various ways and share labour, machines and profits, and individual farmers operating independently.

Latest figures show that 12.7 per cent of the farming country is given over to State farms, 24.6 per cent to co-operative farming and the rest to individual farming.

Co-operative farming in Hungary has always been based on the prin-

ciple of voluntary association. But Prime Minister Nagy disclosed in his speech that agricultural leaders had been pushing such development at a pace more rapid than material conditions justified, and in some cases had been neglecting the voluntary principle.

### Co-operative Process Slowed

Therefore the Government ordered a steadying of the pace of co-operative expansion, so that already established farms could become consolidated economically and organisationally and thus set a better example of good farming.

But there is no retreat from co-operative farming: of all measures for helping farms economically the co-operatives are favoured most.

Of all the decrees so far introduced the one giving most immediate benefits is that laying down the new system of deliveries to the State.

In the words of the resolution upon which the decree is based, the new system had to 'decrease the obligatory amount to be handed in by the individual farmer, and in particular that of the producer co-operatives, making possible the sale of a much larger part of agricultural produce on the free market. In this way agricultural production should be increased considerably, the yield of arable farming and animal breeding should grow, and the standard of living of co-operative and individual peasant farmers should increase.'

It is laid down that delivery quotas are settled for three years ahead. This gives farmers a greater

sense of planning stock breeding.

Effect is that it is compared crops to case of co-operative less-advanced 10 per cent. Handling stock products eggs at same time 20 per cent. W on the free or contract quotas have.

The which type are based holdings that possible obligation.

There general larly small large farms with four deliver units.

### Financial

To encourage and co-production lands, but by even existing per cent.

At £6,000, owed to farms which have been



sense of security and permits better planning of crop rotation and livestock breeding.

Effect of the new delivery scheme is that it cuts down by 25 per cent compared to last year the amount of crops to be sold at State prices in the case of the advanced type of co-operatives, by 15 per cent for the less-advanced co-operatives, and by 10 per cent for individual farmers. Handing-in of livestock and livestock products such as milk, meat and eggs at State prices is cut for the same three categories by 30 per cent, 20 per cent and 15 per cent respectively. What is left over may be sold on the free market without hindrance or control, subject to the statutory quotas having been fulfilled.

The handing-in obligations on which these percentage reductions are based are determined by size of holdings and income per acre, so that poor farm land has a lesser obligation than rich land.

There are also variations of the general rule which favour particularly small holdings or, for example, small peasant farmers who have large families. Thus a 7-acre farmer with four children does not have to deliver up meat.

### Financial Help

To encourage individual farmers and co-operatives to increase production by leasing State reserve lands, delivery obligations are cut by even bigger percentages than for existing holdings—by as much as 75 per cent in some cases.

At a cost to the State of £6,000,000 all short-term loan debts owed to the State by co-operative farms up to the end of this year have been cancelled. Repayments of

medium and long-term loans are suspended for two years. And after that, repayment of long-term loans is spread over 17 years and medium-term loans over five years.

Farms building irrigation plant and making fish ponds will get free grants, and both financial and material help will be given to farmers rejuvenating or extending vineyards.

Grants are to be made for planting protective tree belts on co-operative farms, and if five years later afforestation stations report the work well carried out the loans will be written off. Individual farmers get saplings at reduced prices.

Long-term loans will be made for the construction of co-operative farm building. No repayment will be required until five years after the loan instead of one year as at present.

Individual members of co-operatives who want to build a house of their own can get a State loan. For this the Minister of Finance has been told to set aside £1,000,000 this year alone.

### Other Assistance

Other forms of help to farmers include:

Supply of selected veterinary service and free supply of vaccines; cancellation of tax arrears if this year's taxes are paid on time; reduced fees for ploughing by machine stations and cancellation of outstanding debts to machine stations; doubling of the permitted area for *personal* gardens of co-operative farmers to a maximum of 1.4 acres; credits up to £10 per acre for fertilisers or machine assistance; release from factories of workers who want to go back to the land.

## Co-operation with Foreign Capital in Under-developed Countries

BY PROFESSOR W. ARTHUR LEWIS (*University of Manchester*)

IT is theoretically possible for a government to finance industrialisation by borrowing capital abroad. Some capital can be had for this purpose from the United Nations International Bank or the United States Export-Import Bank, or by borrowing in the great capital markets, but not much capital is available from these sources. In practice, industrialisation with foreign capital means mostly private foreign enterprise.

Foreign capital is unpopular in all countries which are or have been in colonial status. This is mainly because in such countries the foreigners do not get assimilated into the population. This process of assimilation does not occur when the immigrant differs in race, in religion, and in ways of living from the people amongst whom he comes.

Foreigners are often content with smaller profits than domestic capitalists, who are inclined to look mainly for quick returns and to shun investments where one may have to wait a long time to get one's money back. All private capital invested in under-developed countries expects to make large profits, whether it be domestic or foreign.

From the point of view of economic development what matters with profits is not how large they are, but how much goes out of the country. There is a greater presumption that domestic profits will be reinvested than there is that foreign profits will

be reinvested in the country, and since reinvested profits are the main source of savings in any country, this difference is important. But the difference is not always large. Many foreign capitalists automatically reinvest their profits in the country, and indeed there is no reason why they should not do so if the country continues to offer opportunities for economic expansion.

### Secrets Foolishly Guarded

The most serious indictment that can be levied against foreign capitalists, in economic terms, is not that foreign shareholders receive dividends, but that the foreigners are often reluctant to train people in the secrets of their craft.

The foreigner's most useful craft in these days is not scientific information, but managerial experience. Science and technology are taught in schools, and the local people can study them in their own or foreign universities. The craft of business management, however, can be learnt only in managing businesses.

If no one will employ the local people above the level of clerks, they cannot learn how to manage industrial businesses for themselves, and their economic affairs will always be dominated by foreigners. This is why the foreigners, in those countries where they refuse to be assimilated, are usually most careful to exclude local people from managerial positions. It is also why most colonial

*From Aspects of Industrialisation, Fiftieth Anniversary Commemoration Lectures, National Bank of Egypt, Cairo, 1953*

countries, as soon as they become independent, take steps to compel foreign firms to open up managerial positions to local people.

Whatever the foreigner's faults may be the fact remains that undeveloped countries need him more than he needs them. The underdeveloped countries need foreign capital, not because it is impossible to industrialise without it, but simply because it is very painful to try to do so, especially in economies where agricultural productivity is increasing very slowly.

### How to Attract Capital

In the nineteen-thirties the creditor countries were treated harshly by several debtors, and foreign investment dried up altogether. Recent attempts to revive it are based upon trying to find a compromise: to state the terms on which it is acceptable, and at the same time to guarantee it certain rights. Some of the more important issues are: (1) exclusion from certain trades; (2) the demand for partnership; (3) the regulation of employment; (4) the regulation of prices and profits; (5) transfer of capital and profits; (6) discriminatory taxation; and (7) nationalisation.

Foreign firms want to be assured that they will not be nationalised, but this assurance cannot usefully be given. A better assurance is that if they are nationalised, they will receive fair compensation determined by independent arbitrators. Some countries have written into their constitutions a clause prohibiting nationalisation without compensation, e.g. Burma and India. But the constitution usually leaves it to Parliament to decide how the compensation should be determined, and this is a loophole which could be

closed by laying it down that there must be independent arbitration.

This is essentially a field for fair compromise. The foreign firm must face the fact that it has to run the risk of nationalisation, just as it has to run the same risk at home. The undeveloped country, on the other hand, has to face the fact that it will not get capital unless it guarantees and accords fair treatment. Where interests converge, compromise should not be difficult.

The approach of most governments of undeveloped countries towards foreign capitalists is to ask, what restrictions can we put on them without altogether driving them away? Many governments, however, have already discovered that, in the sphere of manufacturing, it is often more appropriate to ask, what inducements can we offer?

Foreign capital flows rather willingly into the development of natural resources—into mining or forestry or plantations—and into foreign trade, and a restrictive attitude is less harmful here. But foreign capital does not easily go into manufacturing, and will not come without special effort.

Most of the foreign capital in factories is in branches or subsidiaries of firms operating in an industrial country. This is because the capital markets which lend overseas have created special institutions for handling overseas mining or agricultural or public utility companies, but are not able to handle overseas manufacturing companies. Hence capital for manufacturing must filter either through industrial firms established at home, or else through the great overseas trading companies, which occasionally branch out into running factories. Hence it is often the case that a foreigner who is willing to

open a factory in an undeveloped country cannot find all the capital at home, and seeks to raise some locally. And, in addition to those who cannot, there are those who will not; who are prepared to manage a factory, and to put some capital into it, but who desire deliberately to restrict their capital commitment in what they may regard as a politically insecure country.

### Local Provision of Capital

Foreigners therefore frequently come to the Government seeking financial participation, and some countries have deliberately created Development Banks or Corporations to meet this need.

One of the most effective ways of contributing capital is to undertake the responsibility for building factories to be leased to industrialists. Many investigations into industrial location have shown that one of the most powerful magnets drawing an industry to set up in one place rather than another is the existence of a good factory building. It has therefore become quite usual to create industrial estates, and to build factories upon them for hire, in advance of applications. Whether factories are built before they are wanted or not, a good way to help a prospective industrialist is to build a factory and lease it to him. This involves the Development Corporation in small risk, since, if the firm fails, the factory can be leased to someone else.

### Natives must Progress

To train up local enterprise must naturally be one of the major objectives of economic policy. The role of the foreigner is that of the tutor: a sometimes likeable but usually tiresome fellow, from dependence on whom one wishes to escape at the earliest possible moment. As in

politics, so also in economic life, the test of maturity is that the country can proceed on its own without needing any significant foreign help. That is why foreign business men should not be allowed in the country unless they play their part in training local people to do their job, and this is why, in one sense, the crucial test of an industrialisation policy is not how rapidly it increases employment or output, but how rapidly it builds up local enterprise.

In some countries there is a long tradition of local enterprise, but it has usually most experience of merchanting activities, and very little experience of managing undertakings which employ large numbers of people, or of managing industrial enterprises in particular. The local enterprise is therefore deficient in managerial capacity and in technical knowledge, as well as in capital.

Of these three, the easiest to remedy is the deficiency of technical knowledge. For this can be learnt in technical schools and universities, or by placing local people in foreign firms, at home or overseas, to learn the necessary techniques. Besides, technique can usually be hired. Foreign technicians are usually welcome even where foreign capital is excluded.

Lack of managerial capacity is more difficult to remedy. It is a common error, in undeveloped countries, to believe that entrepreneurship requires mainly technical knowledge and capital. The truth is the reverse: if people really have managerial capacity they will in most cases be able to find technical knowledge and capital to work with. What makes a business successful is the efficiency of its management, for, given this, all else will follow.

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Management is one of the highest of the arts, because of its simultaneous demands upon character, upon intelligence, and upon experience. Deficiencies in management are therefore difficult to remedy. Some of the requirements can be taught in business schools, such as the tricks of factory layout, or of conducting interviews, or of keeping books. But much can be learnt only by experience. And those requirements which depend on personality and upon character can be met only by people whose outlook on life is appropriate.

### **Foolish Lending**

Local enterprise cannot be built up simply by lending local people money. To lend money to entrepreneurs who lack managerial capacity is merely to throw it down the drain. If the Development Bank lends money, the loan should be made only on condition that the borrower is willing to accept some measure of supervision. When an application for money is received, the Development Corporation should examine thoroughly the way in which the business is run, and the proposals now made for its extension. If dissatisfied in important particulars, it should require the applicant to make whatever alterations it thinks fit (layout, keeping of records, staff policy, or whatever is deficient), as a prior condition to granting the loan. And when the loan is made, the Corporation should keep in touch

with the firm, either by appointing one of its staff to be a part-time director of the firm, or otherwise; the Corporation needs an experienced staff who can keep in regular touch with borrowers, and give good managerial advice.

It is also undesirable to lend people money to start new businesses in industries of which they have no past experience. The Corporation should concentrate almost exclusively upon lending to businesses which are already in existence, and which show good prospects.

I make these restrictive remarks because it is the easiest thing in the world to lose a lot of money in trying to set up local enterprise, and one or two of these Corporations have already done this, with almost no useful result. The main deficiency of local enterprise is not capital but knowledge and experience, and it is in the sphere of bringing knowledge and experience that these Corporations can be most useful, rather than simply in lending money.

I think the best ways to develop domestic enterprise are, to send young men abroad to work in industrial firms, to compel foreign firms in the country to train and employ local people in superior positions, to encourage partnerships between foreign and domestic capitalists, and to support an organisation, like a Development Bank, which combines lending money with supervision and advice. Merely to supply money is not enough.

### **PRIVATE U.S. INVESTMENT ABROAD IS \$15,000M.**

Private American investment abroad is estimated at \$15,000 million as at June 30, 1953. This represents a considerable growth in recent years over the total of \$11,800 million shown in the comprehensive (1950) census.

Of the more than \$3,000 million in new investments in the past two and a half years, \$1,400 million went to Canada and \$1,000 million to Latin American republics. Outside the Western Hemisphere most of the new capital was invested in the industrial countries of free Europe, in the Middle East oil fields, in Africa and in the Philippines.

*From Report published by U.S. Department of Commerce, Washington, October 5, 1953*

## Point Four Puts On Uniform

BY PAUL P. KENNEDY

FOUR years and nine months ago America presented to the world 'a bold new programme' to bring a better life to the people of under-developed areas by providing the technical know-how they lacked.

Today, under the Eisenhower Administration, that programme is fast becoming an instrument of America's 'cold war' policy.

Its original identity and purpose are being absorbed in one way or another into the United States military assistance programme. Benefits given with only nominal strings under the original concept are now being tied to a large policy that demands active co-operation with the Western World.

Operation of the Point Four or technical assistance programme is gradually being transferred from Government to private hands. Such administrative control as the Government would retain is being transferred to leaders who also administer military and economic as well as technical aid abroad.

These and other changes in the concept and management of the programme appear to be evolving under the direction of Harold E. Stassen, Foreign Operations Administrator.

The Point Four programme was at first regarded as the most dramatic expression of the American anti-colonial tradition. It was the United States' answer to the charge in Asia and Africa, the Middle East and Latin America that the leading world powers came into those areas only to exploit.

This was the concept embodied in legislation which made possible in November, 1950, the Technical Co-operation Administration. The purpose of this Act for International Development, was 'to exchange technical knowledge and skills and to encourage the flow of private investment capital'.

Confusion reached its peak inside and outside the Government with the reorganisation action last month in which the Technical Co-operation Administration was taken over from the State Department by the Mutual Security Agency and the two were amalgamated into a new agency called the Foreign Operations Administration.

Technical assistance experts who have been with the Technical Co-operation agency since its inception are convinced that this amalgamation was the beginning of the end for Point Four as it was conceived.

### Four Years' Achievements

In its four-year history more than 3,000 technicians have helped Bedouins of Jordan make grass grow on their deserts; helped the farmers of India to increase their yields five-fold; have shown mothers of Indo-China how to save the eyes of their infants with a ten-cent tube of aureomycin ointment.

Doctors and nurses, agronomists and educators, veterinarians and entomologists, sanitary engineers and home economists have been travelling up and down thirty-five countries training others to help their peoples up from age-old hunger,

*From New York Times, September 24, 25, 26, 1953*

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Travellers returning from Asia and the Middle East have said that Point Four has done more to change attitudes towards the United States there than the entire expenditure of life and treasure on the Korean peninsula.

### Change Comes

The first intimation of a change in Government thinking over Point Four came this spring when Secretary of State Dulles, at Congressional hearings, said that the equivalent of Point Four programmes was being carried on by private foundations and 'often more effectively than the Government could do it'.

Mr Dulles cited a Rockefeller Foundation programme for improving Mexican varieties of wheat and corn to resist droughts and blights. 'I think that this is the type of a thing that needs to be studied', he said, adding: 'perhaps the Government can gradually get out of the business of handling activities of that sort through public appropriations'.

The final and most convincing indication that significant changes were under way came last month when notices of dismissal were sent to 132 of the Technical Co-operation Administration staff of 469 employees here. Of these dismissals twenty-nine were in Grade 15, the highest Civil Service grade, and thirty were in Grade 14.

The Point Four programme to improve conditions in the under-developed lands has not been skilled by amalgamation with the sprawling military and economic aid projects, but the result, as one official put it, has been to 'cut back Point Four to Point Two and a Half.'

In the change of policy indicated by Harold E. Stassen, Foreign

Operations Administrator, technical assistance will henceforth be advanced as an integral part of our over-all mutual security programme. *That would indicate that underdeveloped countries could no longer be neutral and still have the advantage of American know-how, which Point Four had offered without strings.*

### Why Point Four Gained Friends

Those who helped evolve the Point Four philosophy and put it in operation believe that two factors more than any others were responsible for its acceptability around the world. One was the demonstrable fact that the United States Government was asking nothing in return. The other was what they called the 'mutuality' or partnership basis on which problems were attacked.

Now the fear is that governments of the under-developed areas will not take so kindly to aid efforts that are tied in with military rearmament plans under the direction of men who think in terms of military security.

It was the 'mutuality' of Point Four projects, whether to promote the health, literacy or productivity of depressed peoples, that made such efforts impervious to Soviet propaganda attacks. The Moscow radio's blasts against United States imperialism were no match for the magic of Point Four 'shots' against yaws or intestinal parasites.

But before that wonder word could bring whole populations out of the hills of Haiti or Nepal, the United States first had to be invited into the area. A whole net-work of 'mutual agreements' covering 'joint operations' of the United States and recipient governments then established once and for all that Point Four sought only the welfare of native populations.



areas, each under a regional director. The four regions will be Far East; Near East, South Asia and Africa; Europe, and Latin America. Country missions will work directly under the regional director, and the four regional directors will be responsible to the Deputy Director for Foreign Operations, who will work directly under Mr Stassen.

The Far Eastern regional director will work in liaison with the Assistant Secretary of State for Far Eastern Affairs, and the director for Near East, South Asia and Africa will work in liaison with the Secretary of State for Near Eastern, South Asian and African Affairs. The European director will work in liaison with the Assistant Secretary of State for European Affairs and the director for German Affairs; and the director for Latin America, who also is the director of the Institute of Inter-American Affairs, will work in liaison with the Secretary of State for Inter-American Affairs.

The reductions in force have raised doubts among the voluntary agencies that have been participating in the technical assistance programmes for under-developed countries.

These agencies fear that the replacements for young technical experts will be older business and military men, some without technical aid experience. They question whether the replacements will be able to work with them as efficiently on the human and technical problems.

Mr Stassen maintained these were men of extensive administrative ex-

perience and that despite the lack of technical assistance experience of some, they should be able to provide better relationships than heretofore between the Government and those groups providing the technical aid.

### **The Real Yardstick**

Proponents of Point Four in its original form declare there is one yardstick that gives definite indication of the programme's worth—the increase of contributions of recipient countries toward funds advanced by the United States in technical assistance.

In the four years the Technical Co-operation agency has been operating, approximately \$399,000,000 will have been spent in technical assistance projects when the 1954 fiscal year ends. By this time the recipient countries, it is estimated, will have contributed about \$490,200,000 as their share towards the projects.

In the early days of the operation other countries, particularly those in the Middle East, were putting up about \$1 for every \$6 spent by the United States. At present, Asia and the Near East are putting up about \$1.25 to our \$1 and Latin American countries are putting up approximately \$1.90 for each United States dollar.

What effect the new policy will have on this increasing financial interest by recipient countries in their assistance projects will not be apparent until next year.

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### **'BRITAIN'S ECONOMY: THE PACE OF PROGRESS'**

This is the subject of an address to be given to the Economic Research Council by Mr Manning Dacey, Economic Adviser to Lloyd's Bank, Ltd., on Wednesday, November 4.

The meeting will be in the Angus Room, 55 Park Lane, London, W.1, at 8 o'clock.

Non-members will be welcome if they will notify their intention to be present to the Secretary, Economic Research Council, 18 South Street, London, W.1. (GRO. 4581)

## New Books Reviewed

*Basic Economic Problems—A Christian Approach*, by John F. Sleeman, S.C.M. Press Ltd, London, 10/6.

This book has long been needed. As the author (Lecturer in Social Economics in the University of Glasgow) says: 'While there have been many economists who have been Christians, it is unfortunately true that the main body of economic thought has tended to grow up without reference to Christian doctrine, and also that Christian social thinking has tended to take place without reference to economic doctrine'. If it be true that economists have been indifferent to religious philosophy, or hazy about it, it is certainly true that theologians who have disported themselves in the field of sociology have disclosed appalling ignorance of basic economic facts and often of the mere alphabet of politics. So a book such as this by a competent and experienced economist, which deals systematically with the business, is more than welcome.

Let it be said at once that it is a highly competent piece of work. It begins with clear statements of Christian and economic principles, and then proceeds in good order to examine history and the contemporary scene in the light of them. The author is far too enlightened to fall into the trap of seeking to present an ideal Christian-economic conception. He most properly asserts that most systems have their virtues and inherent vices, and he shows both in relation to each system as it comes up for review.

If therefore one is to dispute his quite logical conclusions, the real battleground must be found in the author's premises. His starting-point is that 'God is the Creator and Sustainer of all life. He has made all things and He intends them to be used to His Glory'. Now it can be argued—and it is one of the merits of this book that it inspires debate—that that particular starting-point is likely to put more emphasis on personal rights than on personal duties, and that that anyway is the characteristic evil of contemporary politics. Suppose the author had begun where the shorter catechism of the Scottish Presbyterian Church begins, with a searching question as to what life is all about (Q. What is the chief end of man? A. Man's chief end is to glorify God and to enjoy him for ever)? Society's duty to the individual—the rights of the individual within society—can be held to be not a primary but a secondary matter, and the danger of the

other approach is that there may be less emphasis than the Christian approach should imply, and certainly less than our times demand, on life as a discipline.

But all this is merely argument arising out of a wholly admirable book. H.S.G.

*National Income and Expenditure, 1946-52.* H.M.S.O., London, 6/-.

A comprehensive picture of Britain's economy during the post-war years.

As usual, many figures for the earlier years in the series have been revised. Among other changes are the provision of several new tables and some important modifications in treatment and definition.

Of the several new tables the most interesting is the 'Input-Output' table (No. 13). This is an attempt, on a limited scale, to show the different quantities of factors of production that have been absorbed into a number of broad industrial groups and the total output resulting therefrom. This development, which has gone much further in the U.S.A., opens up a new path in the field of applied economics, and important consequences may ensue.

Perhaps the most important modification is the elimination of the separate statement of 'provision for depreciation'. All profits and trading income are now to be shown 'gross'.

Two virtually independent estimates of output have been compiled. The first is from estimates of final expenditure on goods and services, reduced to constant prices. The other is based upon the indices relating to the physical volume of output. There is a warning note that 'it cannot be assumed that either set of results is necessarily more accurate than the other'.

The indices of 'gross domestic product' for 1952 tell a familiar tale: the relative stagnation in the Mining and Quarrying Sector; the sharp fall in the output of manufacturing industry; the steady increase in the 'Gas, Electricity and Water' group—is this commensurate with the large—if not excessive—share of the capital cake secured by the first two industries named?; the relatively sudden and large increase in Defence.

This publication is indispensable to economists, very nearly so to all who are interested in current affairs and the state of Britain, and should be prescribed reading for all politicians. R.J.W.

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# Faith in Future of U.S. Economy

BY WINTHROP W. ALDRICH (*U.S. Ambassador to Britain*)

ATTENTION has shifted in Europe from the prospects of change in America's economic policies to the prospect of change in America's economic conditions.

One notion is that American prosperity is tied up solely with the Korean war. Another idea is that American economic activity has reached such a high point that it must obey the unexplained law of economic gravity and begin tumbling down. And there is a feeling of real concern that certain economic indices have changed course.

The idea that the level of the American economy was dependent on the continuance of actual fighting in Korea is unfounded. The Soviet threat still remains very much with us, in several parts of the world. And the Korean truce will not greatly affect our defence expenditures.

## No Law of Gravity

As for the concept that what goes up must come down, I do not believe that the complex and growing economies of the world are subject to the same laws of physics as apply to paper kites and rubber balls. In the past century and a half, the levels of economic activity have been moving steadily upward. The population of the world has been increasing; so have the needs and wants of this population as consumers, and so have production and productivity—the ability to fulfil these wants.

In recent decades, particularly in the United States, the continuing rise has been spectacular. There have been some dips and temporary setbacks, but the general upward climb, in production, in trade and in living

standards, has not been halted. I believe we have the wit, the will and the wherewithal to keep it moving in the same direction.

## The Facts

The question that remains is:

What is the present position in the United States? A careful analysis should make it clear that the American economy is fundamentally well balanced. Production, investment, incomes and employment are all at very high levels. The picture is by no means uniform but it hardly ever is. Steel production has eased up somewhat, as has output in some other heavy industries. But in numerous so-called 'light' industries, production is greater. Farm income has been lower than its earlier peak for some time, which is a matter of concern, but total national income remains high.

Actual expenditures on defence are just about at their peak and, in the absence of any unexpected developments, will continue very close to that level for a good many months to come. At the moment overall Government expenditures are being reduced, but the effects of this are likely to be offset by tax reductions which will leave more spending money in the hands of private citizens. *Those who make economic predictions are particularly likely to go astray when they try to prefigure what millions of consumers are going to do with their money.*

The United States has always had a dynamic and expanding economy. The general direction of the line on the U.S. economic chart is upward, but it is not a straight line. Nothing

*From Address, American Chamber of Commerce, London, September 29, 1953*



in the present American economic scene would lead any informed observer to see a deep depression in the offing. Because of recent changes in several of the economic indices, various observers are considering the possibility of a mild recession. I do not think that it is certain, but it cannot be ruled out.

One of the most important things to remember, however, is that the present U.S. Administration recognises this possibility and is preparing to deal with it—if it occurs.

If the American economy shows real signs of serious decline, the U.S. Government will not sit idly by. *In any action that might be taken, I am sure the U.S. Government will be concerned with the external as well as the domestic effects of a drop in economic activity in the United States.* President Eisenhower has repeatedly emphasised his awareness of the interdependence of the economies of the free nations and the impact which economic developments at home have on conditions abroad.

The American people are convinced of the beneficent possibilities of an expanding economy, not only in the United States, but in the world as a whole. That is why we have devoted so much effort in our aid programmes to the creation of conditions which would permit expansion of production and trade in Europe. That is why we created the Technical Assistance Programme to help increase output per man in industry and agriculture in each country. And that is why we have supported all the measures to create an enlarged market common in Europe which would give more room and leeway for expansionist policies and adequate outlets for the fruits of higher productivity.

*These programmes are not supported by the American taxpayer out of sheer altruism. They are rather the natural expression of the belief held by Americans that economic expansion everywhere leads to international stability, security and prosperity, and is therefore to America's own self-interest.*

### DISSOLVING THE COLOUR BAR IN U.S.A.

The foundation of the Negro's economic progress is the fact that he has broken in large numbers out of farm and domestic work into industry. During World War II, a million Negroes went into defence industries. By and large they have stayed in industry ever since. Today, nearly 11 per cent of all U.S. industrial workers are Negroes—twice as many as in 1940. Most Negroes are still held to unskilled jobs. But there has been progress:

Among U.S. skilled workers and foremen, 4 per cent are now Negroes, up from 2½ per cent in 1940.

Among clerical and sales personnel, 3½ per cent are now Negroes, up from 1 per cent in 1940.

Among women professional and technical workers, 7 per cent are Negroes, up from 4½ per cent in 1940.

One big trouble: there simply are not enough qualified Negroes. Example: U.S. industry will hire all the Negro engineers it can get, but few Negro college students go in for science or engineering. They still favour the respectable, relatively secure professions, such as teaching, medicine, the ministry and the law. In business, Negroes are generally in service lines, e.g., undertakers, barbers, cleaners, etc.

Though Negro home ownership has gone up dramatically, the most depressing feature of the Negro's existence is still his home. Negroes now own nearly a third of the places they live in, a two-thirds rise over 1940. (White home ownership has risen more slowly in the same period, is now 57 per cent.) But nearly a third of all Negro homes are dilapidated, compared with less than 10 per cent in the nation as a whole. More than 20 per cent of all Negro homes are overcrowded, compared with 5½ per cent in the nation as a whole.

*From Time (Reprint Pamphlet—The U.S. Negro 1953) New York*

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## I.M.F. and World Bank Verdicts

THE report of the International Monetary Fund points out that the approximate balance achieved in the U.S. balance of payments was due partly to some temporary elements—U.S. Government purchases abroad and restrictions on imports from the Dollar Area.

Total U.S. Government purchases abroad amounted to \$2,500 million or enough to pay for one-sixth of all U.S. exports. 'A high level of off-shore purchases is obviously no permanent substitute for a high rate of commercial imports.'

There is no way of measuring the size of the potential demand which would be released through the removal of restrictions on imports from the Dollar Area. But the report states that the extent of this demand is no longer as large as it used to be. The generally favourable supply situation for raw cotton may check any demand for U.S. cotton, which fell in response to the decline in the output of cotton textiles. If Western European coal output increases, the decline in European imports of American coal should be permanent.

### (1) Residual Dollar Problem

For the solution of the residual dollar problems, commercial relations with the United States have overwhelming importance.

To prevent any deterioration in the present position, a high level of employment in the United States and the maintenance of proper monetary and fiscal policies in Europe are still of the utmost importance. 'In the

modern world, there are many forces, both economic and social, that seem likely for many years to come to foster a climate of opinion in which it will always be easy to generate new inflationary forces.' A strong plea is made to the United States to revise its commercial policy, but the IMF report adds: '*It is probably true that even the adoption by the United States of complete free trade would not by itself provide more than a partial solution of the dollar problem*'.

Even the most thoroughgoing revision of commercial policy by the United States would leave some part of Europe's dollar requirements to be financed by multilateral receipts. The report draws attention to the possibilities in Latin American dollar countries. But 'European producers must adapt their production so as to satisfy at competitive prices the changing demands of their customers in the countries where they wish to earn dollars'. Dependence on the United States for essential imports is also likely to be further lessened through increasing primary production outside the Dollar Area.

The Fund stresses the precarious character of the world balance recently achieved, and the need for maintaining domestic stability in the United States. Fluctuations cannot be entirely avoided; but the Fund is very cautious in its attitude to multilateral commodity arrangements as a means to stabilise the level of commodity prices and also the level of trade.

## (2) Towards Convertibility

After noting the contribution made by the revival of active monetary policy to the recent improvements, the report welcomes the growing interest in plans for the restoration of convertibility and adds that 'the elimination of the dollar shortage requires adjustments in the pattern of international trade and payments, to which an effective movement in the direction of convertibility might itself make a significant contribution'. The timing and extent of moves in this direction cannot be forecast, but this uncertainty 'does not mean that countries cannot in the meantime take less far-reaching measures which have immediate value', e.g., freeing commodity markets, restoring the machinery of foreign exchange trading and granting some freedom for its operation.

A more active policy of the Fund in furthering progress towards convertibility is foreshadowed: '*The unused gold and convertible currency resources of the Fund are substantial, and it is reasonable to expect that occasions for their use under appropriate conditions will occur more frequently in the future than during the last two or three years*'.

## (3) Under-developed Economies

The report of the World Bank starts with some well-balanced and apposite comments on the general problems of developments. The resources of most under-developed areas are adequate, if effectively used, to support a substantially higher level of production and income. There are many reasons why these areas have not been more developed. 'Many cultures have placed a low value on material advance and, indeed, some have regarded it as incompatible with more desirable objectives of society and the individual. . . . Certain forms of social and economic

organisation have offered obstructions. . . . Climate and topography have imposed limits on economic growth.' The provision of capital 'cannot, by itself, be expected to remove some of the most important obstacles'.

The institutions that can promote economic growth cover an extremely wide range. A comparatively new one is the establishment of institutions to weigh Government policy and guide Government investment in economic developments.

Such programming units have recently been set up in several countries including Brazil, Burma, Ceylon, Colombia, India, Iraq, Nicaragua and Surinam. Their main functions are to review the total of Government investment, to co-ordinate development planning within the Government, to establish priorities, to give encouragement to the most useful private activities and to keep fiscal and economic policies consistent with the long-term objectives of economic growth. Often these bodies also deal with requests for foreign assistance.

The organisation of these bodies is not uniform, but it is agreed that the programming unit must be at an influential level of Government and must be impartial; for the latter reason it cannot be charged at the same time with executive responsibility for the carrying out of projects.

The establishment of such a unit is not in itself a panacea. Little purpose can be served by such a body unless a favourable climate is provided by appropriate policies. Nevertheless, a programming institution can help to lift projects out of the arena of short-term needs and bring more clearly into view the gains to be won by steady pursuit of basic economic improvements.

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# If Welfare is the Aim

BY PROFESSOR HUGO E. PIPPING (*University of Helsinki*)

LET us consider policies that are intended to change the economic structure and whose purpose it so mitigate the consequences of business cycles and/or, if possible, to reduce the limits of their fluctuations.

Structural change takes place in society to a large extent independently of the state, mostly as a result of technical innovations or of changes in the composition of the population, the latter of which may be influenced by state policies.

The new technique does not, however, take shape automatically; it requires capital equipment, and the state makes large investments in material as well as mental capital: in roads, railways and power stations, in industrial plant, in public buildings, in educational institutions and so on. To what extent the property of the state, expressed in money, is increased thereby depends upon the methods of financing the investments. There are countries in which the government debt is so large that the net value of state property represents a negative quantity.

The distribution of the real national capital among different owners (the state, companies, individuals) does not, consequently, reflect the distribution of national wealth (in money). Further, the property value of investments made by the state or others depends on the capitalised returns. The value of state property is reduced by the fact that its products and services, either wholly or in part, are from the start intended to be sold below their cost

of production or are, perhaps, to be disposed of gratuitously.

## Attempts at Definition

It might, perhaps, be argued that the acme of welfare policy is reached, when as much as possible is obtained as cheaply as possible from the state. There are always people who are willing, though not always grateful, receivers. 'Nobody shoots Santa Claus.'

But there is another attitude, too. The author of a utopian novel disliked the feeling of getting things free in his dreamland; it made him feel as though his personal liberty was threatened. And he had never before realised how much he had enjoyed spending money. But there are naturally more rational reasons, why the state should not permanently play the part of Santa Claus.

*The principle that investments should pay interest or that the costs of production should be covered, is not a bad guide. It gives an idea of what people really want and an indication that resources are not unlimited, and above all the fundamental point of economic principle is emphasised: the choice between alternatives.*

But what is the limit? In practice the economic activities of the state, and particularly its investments, represent all grades from pure charity via social services to hard-boiled monopolism. Is all this done for the promotion of welfare? Or, when the state subsidises or otherwise supports unsuccessful enterprises or whole branches of industry, does it thereby promote general welfare?

*From 'Welfare and the State', Unitas, Quarterly Review of Oy Pohjoismaiden Yhdyspankki, Helsinki, Finland, August 1953*

Unfortunately, there is no known yardstick of welfare as compared with sacrifices, when the state makes investments, provides social services or distributes subsidies. Society acts to a large extent tentatively or under the influence of political constellations.

### Limited Capital Resources

However, it is easy to forget that investments or services administered by the state are supplied from the same sources as other investments and services. The investments have to be financed with existing savings, and taxation does not merely mean a transfer of savings, but frequently the reduction of savings in the community. If the government is successful in its policy, the result will be reduced consumption which, in a given situation, may be the right thing, but which the mass of the people will hardly accept as welfare policy. If the policy fails, the purchasing power of the currency will drop, with dismal consequences. Corn does not grow on brick walls and asphalt roads, and it must be borne in mind that government investments will turn into consumer goods only after a long time and after passing through many stages—perhaps never.

It would be more fitting if the government, instead of squeezing sour lemons, would try, in collaboration with the central bank, to create a capital market in which public and private enterprise would compete for the available savings on equal terms. This is the only way to obtain an idea of the cost of investments for welfare.

Structural policies have long-term effects, but may, at best, result in an economy which is less susceptible to business fluctuations. The direct

control or management of prices and wages inherited from the war economy and the counter-cyclical policies that have employment in view are, in principle, more ephemeral, though in a way they are connected with investments, too. It would not be fair to question that these policies and those who framed them aimed, and aim, at welfare, but the results are arguable, or, rather, there is no doubt that price control in Finland has proved a failure and unemployment is impending, to say the least. *Continued control is based on the misconception that in a peace economy, just as in a war economy, it is possible to decide as clearly what welfare demands and what sacrifices it calls for.*

### Eternal Triangle

A few selected arguments must suffice here.

We are witnesses of a triangular drama, the actors in which are: trade and foreign exchange policy; price and wages controls; and internal monetary and fiscal policy.

The second has played the part of deceiver and its intrigues have proved disastrous in many respects. It has been said that it is high time to reconcile and reunite the couple: trade and foreign exchange on the one hand, and the currency and the budget on the other, and that the intruder, Corporal Control, should be expelled by the back door by which he smuggled his way in during the war.

The fact that the control of foreign trade and exchange still plays the part of an incorrigible character cannot be helped and depends not so much upon ourselves as on the managers of the great world theatre. It is to be regretted, since the continued quasi-blockade has fortified the monopolistic tendencies more

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than anything else—and the only thing the so-called 'new' Welfare Economics has been able to demonstrate with some certainty is that monopoly prices are detrimental to general welfare.

Some points seem to be the most essential. The first is that the government has deprived itself of its best guide in welfare policy by converting the price mechanism from a compass into a weathercock. Nobody could know what would yield a profit, if the winds of inflation had not been released at the same time with the result that everything 'pays'—except saving. But no statesmanship seems to realise that the cure should be a serum taken from the seat of the trouble, the currency policy. And the government's faculty for forecasting and preventing business cycles seems to be in the same category of wishful thinking and easily frustrated hopes as that under the spell of which school-boys look forward to their reports.

On the whole it is agreed that fighting unemployment serves welfare purposes, partly for humanitarian reasons and partly because resources lying idle mean a loss. *On the other hand, it should be evident that unemployment is not the illness itself, but a symptom, and that the counter-measures should be adapted to the circumstances.* Counter-cyclical policies have their limits, either in the foreign exchange market or in the home supply of resources.

If the existing difficulties of obtaining employment are dependent upon too high a level of costs of production compared with that in foreign countries and upon the unsuccessful control of prices and wages, combined, moreover, with a public and private investment mania—caused in the case of the government partly by

force and partly by imprudence and in other cases by a panic-stricken 'flight to real values'—well, then, it must be seriously considered whether the measures against unemployment are on the right lines in favouring investments.

### Welfare not a Quantity

If the taxpayers are to be convinced that the transfer of purchasing power from themselves to lower income groups promotes the welfare of the community as a whole and of themselves in the long run, people should, *vice versa*, be asked to understand the argument that just for this once, in a situation which is not at all like the world depression in the early 1930's, a stronger remedy is needed for the sake of the general welfare. *It should be borne in mind that welfare is something more than serving courses of babies, bath, bed, breakfast and biographies. Welfare is the result of co-ordinating methods and resources that actually exist and have not merely been touched up in a photo-film.*

Employment is, individually, an end in itself and in a certain sense also of public importance. But it is, on the other hand, only a partial end in the same way as the volume of national output. From the point of view of welfare it must be defined as what has been produced, what kind of employment is available and at what cost.

General welfare is not a quantity, not a sum total of magnitudes which, moreover, are not capable of being added up. Welfare is quality or proportions like acoustic waves and the palette. Economists speak of 'equilibrium', which is not quite a suitable term, since progress often comes about through disequilibria caused by technical innovations. But there are, in the economic realm, proportions that cannot be altered arbi-

trarily; activities and their result (productivity); cost and prices, consumption, saving and investment; leisure and working time; increased output and its distribution; risk and uncertainty, etc. These proportions are to a certain extent 'conventional' or 'customary'. Hence, production as well as welfare are in a dynamic society changing incessantly in their structure. These qualities or proportions are not fixed by the state except in an autocratic country, and hardly even there, since no dictator is master of all material and political realities.

In the mixed—some people might say in the half-socialised—society in which we live the practicable weapons of the government are formally fewer than under a dictatorship, but in reality it has greater

possibilities of managing welfare policy. It can rely upon individual activity, inventiveness, organising skill, responsibility, etc., that discover ways of their own. In case of organic or accidental disturbances it can be a supplementary force which softens hasty changes, reduces conflicts, equalises injustices within the framework of the available resources and relying on rational means. It can distribute social services, start investments, manage money and credit and pursue countercyclical policies.

*But society must be aware of the limits of its own powers and of the resources, and above all it must grasp that it is just as unable to create welfare as a typewriter is to create literature.*

#### WHO READS WHAT IN BRITAIN

The number of potential readers of periodicals in Great Britain—i.e. the population aged 16 and over—is 36,800,000. What do they read?

Seventeen newspapers and magazines fall into the top category by exceeding 10 per cent of the potential, as follows: News of the World 49.5; Radio Times 48.8; People 34.5; Sunday Pictorial 33.1; Daily Mirror 27.8; Daily Express 27.6; Reville 24.6; Sunday Express 20.1; Picture Post 16.1; Sunday Dispatch 15.6; Illustrated 13.7; Daily Mail 13.1; John Bull 12.8; Daily Herald 12.7; London Evening News 12.6; Reader's Digest 12.3; Empire News 10.9.

The percentages of other dailies are: News Chronicle 8.2; Daily Telegraph 5.0; Daily Sketch 4.1; The Times 1.2; Manchester Guardian 1.0.

Sunday newspapers not in the first list given above are assigned these percentages: Sunday Post 8.5; Sunday Graphic 7.1; Sunday Chronicle 5.2; Sunday Mail 4.3; Reynolds News 4.2; Observer 3.4; Sunday Times 2.9; Sunday Sun 1.8; Sunday Mercury 1.1.

Other interesting percentages are: Thomson's Weekly News 8.3; Everybody's 8.2; Punch 2.7; Listener 2.0.

A group of rivals (called by *Impact* 'the sexier sections of the press') representing a significant post-war trend is made up of the following, each with its percentage figure: Reville, 24.6 (Forces periodical, launched into the civilian field in 1947); Tit-Bits, 8.9 (increased from 2.6 per cent in 1947, and in terms of certified circulation from 676,000 to 902,500 in the first half of 1953); Overseas Mail (now Weekend Mail), 5.9 (first published 1951).

What do the well-to-do and middle classes read? Here is a list of the first ten preferences, followed in each instance by the number of readers from these grades: (1) Radio Times, 2,820,000; (2) Sunday Express, 1,740,000; (3) Daily Express, 1,350,000; (4) Reader's Digest, 1,090,000; (5) Picture Post, 1,030,000; (6) News of the World, 1,030,000; (7) Daily Mail, 930,000; (8) Daily Telegraph, 850,000; (9) People, 840,000; (10) Sunday Pictorial, 810,000.

And what do the working class and poor read? Here is their list of first ten preferences, also followed by total number of readers from these grades: (1) News of the World, 15,010,000; (2) Radio Times, 11,220,000; (3) People, 10,980,000; (4) Sunday Pictorial, 9,660,000; (5) Daily Mirror, 8,460,000; (6) Reville, 7,370,000; (7) Daily Express, 6,850,000; (8) Daily Herald, 4,110,000; (9) Sunday Dispatch, 3,980,000; (10) Sunday Express, 3,790,000.

These figures are from Hulton's fascinating analysis of what people are reading, classified in terms of men and women, ages, social groups, personal interests, etc.

*From Hulton's Readership Survey 1953, Hulton Press, London*

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## 'The Public Interest'

HAVING nationalised the key industries, the Labour Government put in their charter that they should now operate 'in the public interest'. But the one crucial thing that was needed and was not done was to define what 'the public interest' was, and so give the new managements and the public some terms of reference, some vision of the next lap of the journey.

Most of the present confusion results from this failure. No one has known what to expect from the nationalised industries, and everyone has pulled in different directions. Workers have wanted more wages and a new status. Consumers have wanted lower prices. The public has expected more and more output, as if to nationalise were to turn on a tap from which would flow an ever-swelling stream of products. And everyone has expected that, whatever else it does, a nationalised industry must at the same time always show a profit in its annual accounts.

In short, all the old demands, and more, made upon capitalist industry—right up to the crowning irony of earning a profit (though here it is politely called a 'surplus')—are now made on socialised industry as well. Because it is impossible to fulfil them all simultaneously, each interest is in turn disappointed.

### Public Interest Defined

The public interest requires that an industry should be efficient. This does not mean that it should always make profits, or that its prices should continually fall and its output continually rise. It means rather that it

should use its manpower to the best advantage by introducing good equipment and modern work-processes; that it should produce a good quality product and give good service to the consumer; and—most important—that it should fit in with the nation's plans and priorities.

The public interest next requires that an industry should not be a citadel of power for a group of owners, or a group of managers, or even for a group of State-appointed administrators. Its powers should be diffused through all levels of the industry so that every worker in it may feel a responsible participant.

And, thirdly, the public interest requires that an industry should provide good work relations, that the work community should in fact be an industrial democracy.

As soon as these criteria are set out, two things become plain. The first is that, apart from rare exceptions, private enterprise cannot be counted upon to work towards all these ends for the simple reason that they *may* not be compatible with making a profit—which is, after all, its purpose. To ensure that they serve the public interest, industries must then be publicly owned or controlled.

Second, it is obvious that for industries that are taken into public ownership the real work begins only then. They have then to accept the new criteria by which they are to operate. In other words, they have deliberately to set about the formidable task of infusing a whole new set of values into the enterprise—the

socialist values of public services as opposed to the capitalist values of material gain.

They have, also, to seek out the right structure for themselves. Is the type of corporation we have set up too centralised? Does it give the individual employee sufficient chance to participate? And what about other possible forms of public ownership? There may be industries which would

be better served with quite other arrangements.

Until more thought has been given to all these questions, and until the movement begins to understand their implications, it is not only pointless, but dangerous to go on nationalising more. For that will only mean repeating the mistakes, and inviting yet more disillusionment.

### CO-OPERATIVE SOCIETY PROGRESS IN TRADING AND BANKING

During the years 1937-1952, the membership of the co-operative supply stores increased from 7,746,000 to 10,887,000, their sales from £231,966,000 to £702,032,000 and their share capital from £141,858,000 to £223,869,000; but the average of the dividends paid on sales has fallen from 1s. 10½d. to 1s. 0d. per £ and the average of the interest paid on shares from 3.5 to 2.7 per cent per annum.

During the same period, the agricultural co-operative trading societies increased their membership from 136,000 to 247,000, their sales from £16,251,000 to £102,111,000 and their surplus on the years' working from £413,000 to £1,948,000.

The receipts on current and deposit accounts of the C.W.S. Bank during 1952 totalled £1,644,234,000, an increase of £116,257,000 on 1951 and of £1,286,602,000 on 1936. Withdrawals from these accounts were £1,651,043,000 or £87,066,000 more than in 1951 and £1,300,162,000 more than in 1936.

The total outstanding on current and deposit accounts at the end of the year amounted to £178,894,000, of which £72,764,000 was held on behalf of the society's own trading department. Corresponding figures for 1951 were £182,968,000 and £73,111,000 respectively and, for 1936, £100,224,000 and £72,085,000 respectively.

There were overdrafts and advance: due to the bank amounting at the end of the year to £26,753,000, compared with £27,374,000 at the end of 1951 and £2,606,000 at the end of 1936.

Investments, almost all of which were in Government, municipal and other securities, decreased by £5,443,000 to £137,124,000. The comparable figure for 1936 was £96,673,000.

	Surplus on year's working	Liabilities		Net Balance Disposable and Reserves	Total
		Deposit and current accounts	Loans and other liabilities		
	£	£	£	£	£
CWS Banking Dept					
1952	126,819	178,894,475	11,406,703	1,423,201	191,724,379
1951	117,639	182,968,157	13,620,279	1,296,381	197,884,817
1936	338,013	100,223,586	3,824,978	1,056,706	105,105,270
Scottish CWS Banking Dept					
1952	11,364	15,532,738	324,309	106,058	15,963,105
1951	23,770	14,040,406	17,325	94,695	14,152,426

*From Report on Chief Registrar of Friendly Societies for 1952, H.M.S.O., London, 1953*

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## Britain Can Save Thirty Million Tons of Coal Per Annum

A REPORT published by the British Productivity Council ('Fuel Conservation') presents the findings of twelve fuel utilisation specialists drawn from the engineering, heating and ventilating, brewing, chemical, textile and paper industries, who last year made a specific study of power installations and manufacturing and process plants in the United States to ascertain how fuel-saving methods used in that country could be applied profitably to industry in Great Britain.

The members of the team, who made the tour under the auspices of the Anglo-American Council on Productivity and the Mutual Security Agency (now Foreign Operations Administration) represented both management and engineers, and their combined opinions stress the urgent need for the better utilisation of all types of fuel, but principally of coal, which 'is the basis of industrial life in Britain and for all practical purposes is the country's only indigenous source of energy'.

Some extracts from the Report are given below.

\* \* \*

'It is a sad commentary upon our national intelligence that from all the hard-won coal we consume some 80 per cent of the heat is lost, a great deal of it because of ineffective utilisation.

'It has been estimated that the fuel consumption of manufacturing industry in the United Kingdom might well be reduced by something of the order of 30 per cent. . . . The team quotes figures showing that

about ten tons of excess air pass through many inefficiently operated Lancashire boilers *every hour* . . . 'All this heat, which is uselessly discharged up the stack, represents an unforgivable waste of fuel on a grand scale. . . . There are 120,000 Lancashire boilers in the United Kingdom. Its repression . . . might reduce the consumption of industrial steam-raising fuel by as much as 10,000,000 *tons of coal per annum*.

### Waste . . . waste . . . waste

'At least 25 per cent of the heat escapes through the roof and ceiling construction of an uninsulated house'; simple insulation could reduce this loss by 70 per cent.

'The production of (electrical) energy in a condensing cycle . . . involves on the average the wastage of over 70 per cent of the heat available in the fuel.'

(In brewing) 'too often the firing of boilers is left in the hands of unskilled men who may easily waste 500 tons of coal a year on a relatively small plant—more than the annual production of a miner.

' . . . if the average mangling performance throughout the British cotton finishing industry were improved to the extent of a general reduction of five per cent in the weight of water retained, a saving of coal of the order of 10,000 tons a year would be achieved'.

The paper-making process requires such large quantities of warm water that a good use can always be found for any waste heat it is possible to recover, and 'in the United Kingdom the paper industry is not taking

*From Fuel Conservation, British Productivity Council, London, September 7, 1953*

advantage of the opportunities offered.'

'In Great Britain (railway) locomotives alone consume about 13.5 million tons of high-volatile, large-sized coal per annum . . . at an average efficiency probably not greater than six per cent.

'It is estimated that in Great Britain the entire output of 10,000 miners is wasted every year in the form of unnecessary smoke . . . the Smoke Abatement Society of Great Britain estimates that the nation pays at least £100 million a year on account of smoke.

### Coal a Wasting Asset

'Coal is a diminishing asset. Therefore it is immensely important that we use it to much better purposes than hitherto. . . . Growing industrial productivity will demand the provision of vast additional quantities of energy, both as heat and as power. This energy can come only from coal, and it is a matter of grave doubt whether we can produce sufficient of it to meet these future needs, provide for the extension of other essential services and at the same time increase coal exports unless we improve radically our methods of fuel utilisation. . . . We cannot afford to wait for natural influences to work their effect in the fullness of time. The process of economy must be expedited, and to this end bold measures are necessary throughout industry, not excluding the nationalised undertakings concerned with fuel and power; in fact, the spearhead of a national campaign of fuel economy should be the effective co-ordination of the fuel and

power industries.

'It is within our capacity as a nation to save, on the present level of industrial activity, no less than 30 million tons of coal per annum without impairing any services.

'One possible method of improving efficiency in the public generation of electricity is by the adoption of dual-purpose stations, producing and selling both heat and power. Such stations would be equipped with back-pressure or pass-out turbo-generators supplying exhaust or bled steam to nearby industrial, commercial or domestic premises.

### Museum Exhibits

'By and large, British industry has not replaced or materially modified its fuel and power equipment since the first world war; it is old and inefficient. But machinery that was perhaps good enough when coal was in abundant supply and cost as little as ten shillings per ton at the pithead is not good enough today and remains an obstinate barrier to the achievement of real fuel economy.

'Somehow this barrier must be removed; an incentive must be provided to break the deadlock. This is the heart of the problem and it turns on the financial predicament of industry at large. It is unlikely that industry will maintain and improve its standard of fuel utilisation unless it is actively assisted, persuaded, or even coerced to do so by legislative means. Given inducement, the many plans and projects that have been developed but perforce postponed will be brought out of their pigeon-holes.'

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## Output or Costs in Coal Production WHICH MATTERS MORE?

BY E. F. SCHUMACHER (*Economic Adviser to National Coal Board*)

JUST over half Britain's deep-mined output last year was produced at an operating profit and just under half at an operating loss. About 35 million tons, one-sixth of the total output, was produced in 283 pits at losses of 10s. a ton or more. The primary job of those pits is to reduce their costs to a reasonable level, even if it means some loss of output.

On the other side, 340 pits are producing 51 per cent of deep-mined output at profits ranging from a penny to more than £1 a ton. These are the pits to which the board is looking for additional production.

Some pits are working to capacity and therefore cannot expand. Others can and will expand at the price of higher average costs. That price is to be paid, because the industry is paying a much higher price already. More than nine million tons, involving 118 pits, are being produced at a loss of more than £1 a ton. More than two million tons are being produced at a loss of more than £2 a ton. To refuse any tonnage obtainable elsewhere as 'uneconomic' because it might put a pit slightly 'in the red' would be very bad business.

We must be absolutely clear about the question of 'output-expansion' versus 'cost-consciousness'. Some pits must give more weight to one and some to the other. As a first approach

the profitable half of the industry should put primary emphasis on output expansion, even at the cost of occasionally ceasing to be profitable, while those 283 pits which run at average losses of 10s. a ton or more should put primary emphasis on cost reduction, even at the cost of possibly having to reduce their output.

This would leave an undefined area, accounting for about one-third of the industry's output and involving 275 pits, namely all the pits which operated last year with losses of less than 10s. a ton. In the case of these pits, no general policy could be laid down. The primary emphasis in their case must be decided on the spot.

### Wages and Salary Costs

All salaries of £750 a year or more in the industry cost less than 8½d. a ton of coal produced, out of 56s. 9d. total costs. If coal is expensive it is not because of the 8½d. but because of the other 56s.

Some pits should experiment with larger administrative staffs. No pit manager has the time to introduce any of the new methods which he is continually being told are necessary for he is too occupied by the day-to-day running of his pit.

*From Lecture, Summer School of National Coal Board, Oxford, September 7, 1953*

### ASIANS JUNK SEVENTY PER CENT OF VEHICLES PREMATURELY

Automobiles have a shorter life expectancy in Asia than in other parts of the world, according to J. H. Hartzzenbusch, technical assistance expert on motor maintenance at the Asian Field Office of the International Labour Organisation (ILO), a U.N. Specialised Agency.

Seventy per cent of the motor vehicles in Asia are sent prematurely to the junk heap due to lack of proper care. 'It is not a question of normal wear and tear but of innocent neglect because the drivers and motor mechanics do not know any better', the ILO expert says.

*From United Nations News Features, October 15, 1953*

## ABC of 'Input-Output'

*Subject:* The new technique of economic analysis which, for want of a convenient short name, is known as 'inter-industry' or 'input-output' analysis.

INPUT-OUTPUT ANALYSIS, which will always be associated with the name of its American exponent, Professor W. W. Leontief, is essentially a double-entry reckoning of all the transactions between different branches of production. In essence it consists of an enormous table showing for a particular year what each industry supplied to every other industry and to the final consumer. The table is arranged so that each industry appears as a producer down the side of the table and, in the same order, as a customer along the top (or vice versa). By this arrangement the table can show, for example, how coal is used by all industries and by households, including the coal needed by the coal industry itself to provide its own power. The value of an input-output analysis is that it reveals intermediate as well as final demands in detail. When these intermediate demands are related to the final product in the last column, one has a reliable map of the interconnections of the whole economy—in greater or less detail according to the scale of the analysis.

*British Input-Output Analysis:* An example of a 17-column 'inter-industry' analysis taken from this year's National Income and Expenditure blue book, relating to 1950, is reproduced in the *Economist*, but this is only a small sketch of a full input-output table such as the Americans published in 1952 of the structure of the American economy in an analysis which covered 200 industries. Work

is now progressing on the first large-scale British input-output table. It is being prepared by the Department of Applied Economics at Cambridge, with the co-operation of the Board of Trade, and consists of 450-column tables, based on the 1948 Census of Production. It constitutes a double-entry synopsis of everything that in 1948 passed from producer to consumer throughout the economy, recording not only the pattern of final demand but the process of inter-industry transactions which continuously weaves that pattern.

The results of an inter-industry analysis of this kind differ significantly from calculations of the national income. One would not look, for example, to the national income estimates for guidance on the detailed intermediate effects upon different industries of additional rearmament spending or of a decline in general demand. But to the business man the making of such forecasts is very important, and from an input-output table it will be possible to trace in considerable detail the effects of changes in demand through the economy; it will thus help the economist to make the forecasts which governments and business men need. Its value for this purpose lies in the fact that it is a two-way statement. Since it traces in quantitative terms the interconnection of commodity transactions, it can clearly be rearranged to express, for a given unit of a given commodity in intermediate or in final demand, the variegated

*From Economist, London, September 19 and 26, 1953 (Summarised)*

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content of materials, services and labour requirements needed to produce it. This means that the table can be used as the basis of a second computed table of co-efficients showing the amounts of all the materials, components, services and products required to produce a pound sterling's worth of any given product. From this second table forecasts can be made of the effect throughout all industries of a change in demand for the product of one industry. Clearly, the work on this comprehensive input-output analysis of the British economy involves multitudinous statistical computations, but the British research team hope to complete it in three years' time.

*Difficulties and Limitations:* Since even a division of the country's economy into some 450 production flows still involves considerable simplification of the country's production, the question may be asked how far the simplification of the table limits its effectiveness as an instrument of forecasting and what uses can it legitimately be expected to have? Despite many difficulties of classification, a considerable degree of refinement of the crude figures has been achieved. Nor should it be assumed that, because the input-output table is based on 1948 data, it will be out of date eight or ten years later and thus be useless for making forecasts and assisting economic decisions by the Government and industry in conditions prevailing in, say, 1956. Admittedly, the substitution of one product for another is continuously occurring, but over the whole field of industry technological change is slower than is commonly supposed (in America calculations based on 1947 figures have been found to apply closely to conditions in 1952).

Allowances have to be made also for broad price changes by means of appropriate indices. But individual price changes of importance, whether caused by technical or economic changes, may also bring into play the use of substitute materials, components and labour. The art of using the input-output table will lie in a realistic understanding of the possibilities of substitution, and studies of this important subject have been started.

*The Uses of Input-Output Tables:* To give an example of the kind of forecasts that can be made from them, it should be possible to estimate the aggregate bill of goods that would be required to sustain a ten per cent increase in the housing programme—not merely the labour and materials required to build another 25,000 houses a year, but the chain reaction of this additional demand in all sectors of the economy. Similarly the chain reaction to a reduction in the demand for houses, involving a drop in house-building by ten or twenty per cent per year, could be traced throughout the economic system. The tables will also show the resources that would be taken up by different programmes of public works, or any other stimulus to demand. The tables should thus supply information highly relevant to a Chancellor's decision to reflate against an expected slackening of demand, and, vice versa, indicate the appropriate extent and nature of disinflationary measures required to cope with any degree of excessive demand. Wartime experience (when demand is concentrated in Government hands) immediately suggests the value of even a rough guide to future events: it would assist the authorities to control scarce materials, to encourage their production or substitutes for them well in advance, and to arrange for more

imports. The tables will also make it possible to calculate with some accuracy the import content of a wide range of British exports; it will thus be possible to define what are 'high priority' imports, and at what level a decline in exports might imperil the whole import basis of the economy.

Input-output data could be exploited as a formidable instrument of planning, but it should certainly encourage very much better planning than has been the rule in the past, and above all make possible the achievement of particular national objectives with the minimum of physical and administrative control. It would define the technical limits within which economic policies must be formed, and would admit the use of the discriminating force of financial policy in preference to the cruder forms of physical control.

*The Value to Individual Industries* of these studies may seem more limited, but they should tell the industrialist a lot of new facts about his customers. The industrialist could plan more confidently if he knew not only his immediate customers, but also the extent to which their demand for his product might be affected by economic change. Input-output analysis is not market research, nor will it

dispense with the entrepreneur's function of anticipating changes in taste and technology, but it will provide useful indications of the consequences of broad economic change. It should also help the nationalised industries so to arrange their investment programmes as not to be mutually incompatible with the private sector.

*Conclusion:* Broadly, the value of input-output analysis will rest on its contribution towards economic policy under conditions of dynamic change. If it enables politicians to see in real terms the cost of their policies, or if it provides accurate forecasts of employment under different conditions of demand, it will become an important buttress of sound economic decision. In time something approaching a dynamic model of the economic system should come into existence; many economic hypotheses will be tested against the facts for the first time and their truth or falsehood established. Comprehensive input-output tables will help to define the economic consequences of choice by individuals and government and, although it cannot relieve them of the obligation to choose wisely, it may become an influential guide to industrial decisions and to economic policy in a broader sense.

#### LUXURIOUS LIVING ON £120 A YEAR—continued from opposite page

Today it seems almost impossible to remember that one saw women carrying loads of crude white lead on their heads, often at the expense of their unborn children. Or that men engaged in packing bleaching powder kilns would stagger out gassed after half an hour's work, needing a long rest before they could begin again.

Housing is often bad today, but I

doubt where in any town today the Chairman of the Housing Committee would be likely to own property where rain from the roof made its way into rooms three floors lower down. Nor is it likely that the occupant of a basement room could live for six weeks with the corpse of her mother without attracting official notice.

H. M. KEMPTHORNE

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## Luxurious Living on £120 a Year

'THERE are those who leave a comfortable home for a very poor thing' was the gloomy comment of my grandmother's old servant when she heard that I was about to marry a curate earning £110 a year. But when I look at my old accounts and remember the days of my early married life I realise that it was not a plunge into dire poverty.

I see that in those early days of my married life my housekeeping expenses varied from £117 a year to £121, and as I had a small allowance and my husband occasionally could add to our income by examining or coaching, we lived comfortably and even luxuriously compared with the standards of clerical life today.

For £28 a year we rented a good house with study and parlour besides a large semi-basement room which served as a dining-room and was useful for parish purposes. £27 covered the wages of a first-class well-trained servant.

That a penny went a long way is proved by the fact that in the first great coal strike we were able to provide penny dinners for the children of men out of work, and the pennies paid did cover the expense.

Indeed, in the winter months I used often to fetch a penny jugful of soup for our own meal from the parish soup kitchen which was a part of the normal parish activities.

Coal seems, comparatively, a large item—£10 a year on average, but in those days and on the cold North-East coast enormous fires were the rule.

£4 a year met our gas bill, but of course that was for lighting only. Meat was the largest item—£17 a year. Poultry must have been a very

*The 86-year-old widow of a former Bishop of Lichfield looks back to her domestic budget of 63 years ago.*

rare extravagance, as 'Fish and Poultry' cost only total £3 a year. The local fishwives in their full blue serge aprons, close bonnets and coloured shoulder shawls, brought us cheap fish, fresh from the sea, such as I still remember with regret when buying the ice-kept expensive fish of today—'Eh, hinny, but there's some fine fish for thee today'.

I always felt that groceries were a heavy item, £19 a year on an average, and though in those days I was able to save a little by a system of deposits at the grocer's, that bill always seemed to grow bigger.

£7 a year met the milk bill, and home-baked bread, butter, eggs and cream (!) cost the same amount. Greengrocery and flowers figure at £8 a year, and as we were living in a purely industrial area there were no windfalls in the shape of gifts from neighbouring gardens. An item of £2 for wine and spirits appears as a special extravagance in the year when we took a three weeks' tour abroad at cost of £42 15s. 6d.

£10 to £14 a year Parochial Expenses seems a large slice out of a salary of £120, but those were the days when there was nothing but the Poor Law and scanty Club allowances between the working man's family and starvation when illness or some other cause emptied the wages packet. Each parish had its charity funds to draw from, but they could hardly meet all the needs.

*concluded on opposite page*

*From St Martin's Review, London, October 1953*

## FOR REFERENCE

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